



Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry

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10 June 2016

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 17 JUNE 2016** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES** (Pages 1 - 6)
Minutes of Audit Committee as held on Friday 11 March 2016.
- 4. REVIEW OF CODE OF CORPORATE GOVERNANCE** (Pages 7 - 48)
Report by Head of Strategic Finance and Executive Director – Customer Services.
- 5. INTERNAL AUDIT ANNUAL REPORT 2016/2017** (Pages 49 - 58)
Report by Chief Internal Auditor
- 6. INTERNAL AUDIT SUMMARY OF ACTIVITIES** (Pages 59 - 68)
Report by Chief Internal Auditor.
- 7. INTERNAL AUDIT REPORTS** (Pages 69 - 170)
Report by Chief Internal Auditor
- 8. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW-UP 2015 - 2016** (Pages 171 - 180)
Report by Chief Internal Auditor.
- 9. AUDIT COMMITTEE ANNUAL REPORT 2015 - 2016** (Pages 181 - 190)

- Report by Chair of Audit Committee.
- 10. UNAUDITED FINANCIAL ACCOUNTS** (Pages 191 - 308)
Report by Head of Strategic Finance.
 - 11. WHY ACCOUNTS MATTER** (Pages 309 - 318)
Report by Head of Strategic Finance.
 - 12. EXTERNAL AUDIT REPORTS**
Report by External Audit
 - (a) MANAGEMENT LETTER: INTERNAL CONTROLS (Pages 319 - 324)
 - (b) MANAGEMENT LETTER: BUDGET SETTING (Pages 325 - 332)
 - 13. RISK MANAGEMENT AND AUDIT** (Pages 333 - 342)
Report by Chief Executive
 - 14. INTERNAL AUDIT CHARTER** (Pages 343 - 360)
Report by Chief Internal Auditor
 - 15. AUDIT COMMITTEE WORKPLAN** (Pages 361 - 364)
Audit Committee Workplan 2016-2017.

Audit Committee

Martin Caldwell (Chair)
Councillor Iain MacLean
Sheila Hill (Vice-Chair)
Graeme Forrester

Councillor Michael Breslin
Councillor Richard Trail

Contact: Adele Price-Williams

Tel. No. 01546 604480

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,
LOCHGILPHEAD
on FRIDAY, 11 MARCH 2016**

Present:

Martin Caldwell (Chair)

Councillor Michael Breslin
Councillor Richard Trail

Sheila Hill (Vice Chair)

Attending:Kirsty Flanagan, Head of Strategic Finance
Kevin Anderson, Chief Internal Auditor
Graeme Forrester, Area Committee Manager
Christina West, Chief Officer of Health and Social Care
Russell Smith, Audit Scotland
David Jamieson, Audit Scotland
Fiona Mitchell-Knight, Audit Scotland**1. MINUTES**

The Minutes of the Audit Committee of Friday 4 December 2015 were approved as a correct record.

2. APOLOGIES FOR ABSENCE

Apologies of absence were intimated on behalf of Councillor Iain S MacLean and Councillor Iain Angus MacDonald.

3. DECLARATIONS OF INTEREST

There were no Declarations of Interest.

The Chair ruled, and the Committee agreed, that the business as dealt with item 12 (AUDIT SCOTLAND REPORTS – HEALTH AND SOCIAL CARE INTEGRATION) of this minute be taken out of sequence to allow the Chief Officer of Health and Social Care to attend another meeting.

4. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee considered a report detailing an update on Internal Audit Activity during Quarter 4 against the following areas;

- 15/16 Audit Plan progress;
- Individual Audits undertaken;
- Continuous Monitoring Programme Testing;
- National Fraud Initiative;
- Internal Audit Development Plan; and
- Performance indicators.

It was noted that audits still in draft stage are anticipated to be completed and published by 31 March 2016 deadline.

Decision

The Audit Committee noted the report.

(Reference: Report by Chief Internal Auditor dated 11 March 2016, submitted)

5. INTERNAL AUDIT REPORTS

The Committee considered a report which provided detail of six audits, two of which had High Assurance and four had Substantial Assurance. It was noted that the audit of the Resource Allocation System did not progress as the system is to be discontinued.

Decision

The Committee noted the content of the summary report and detail within each individual report in respect of the following audits;

- Homelessness;
- Economic Development Action Plans;
- Exclusions and Truancy;
- School Hostels;
- School Transport; and
- Welfare Reform.

(Reference: Report by Chief Internal Auditor dated 11 March 2016, submitted)

6. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW-UP 2015-2016

The Committee noted that Internal Audit documents the progress made by departmental management in implementing the recommendations made by both External and Internal Audit. The Committee considered a report which provided details of results of a review performed by Internal Audit for those recommendations due to be implemented by 31 January 2016.

The Committee was further updated on the foster carers' handbook which had been signed off and the 29 February 2016 deadline had been met.

Decision

The Audit Committee noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 11 March 2016, submitted)

7. ANNUAL AUDIT PLAN 2016 - 2017

The Audit Committee considered a report which introduced the Annual Audit Plan for the financial year 2016/2017. A draft had already been considered at the December 2015 meeting.

Decision

The Committee agreed to approve the Annual Audit Plan for 2016/2017.

(Reference: Report by Chief Internal Auditor dated 11 March 2016, submitted)

8. ASSURANCE LEVELS

A report was considered by the Committee outlining changes to assurance levels which introduced an additional assurance level of Reasonable Assurance which will feature between the current Substantial and Limited Levels.

Decision

The Audit Committee noted and endorsed the additional assurance level as a significant development which will come into effect from 1 April 2016.

(Reference: Report by Chief Internal Auditor dated 11 March 2016, submitted)

9. EMPLOYMENT TAX RISK REVIEW

The Committee considered a report outlining issues identified by KPMG and the procedures that have been put in place, or are in the process of being put in place, in order to reduce the level of risk.

The Committee was made aware that the outstanding action detailed in Appendix 1 had been completed as it was not applicable to the Council.

Decision

The Audit Committee noted the contents of the report with further updates to future meetings.

(Reference: Report by Head of Strategic Finance dated 17 February 2016, submitted)

10. FINANCIAL STATEMENTS 2015-2016 TIMETABLE

A report was considered by the Committee which advised Members on the plans for the financial year end 31 March 2016 and the preparation of the Council's Financial Statements for 2015-2016.

The Committee was asked to recognise the outcomes of a review of the year end timetable and processes which identified three areas which had an impact on compliance with the timetable for investigation;

- Pension Information;
- Processing allocation journals; and
- Capital Financed from Revenue.

Decision

The Audit Committee noted that plans are in place to prepare the Council's financial statements, consistent with the Accounting Code of Practice, to be submitted to Council prior to 30 June 2016 in line with the Scottish Government's requirements.

(Reference: Report by Head of Strategic Finance dated March 2016, submitted)

11. EXTERNAL AUDIT PLAN 2015 - 2016

The Committee considered Audit Scotland's Argyll and Bute Council's Draft Annual Audit Plan 2015/2016 which focused on the identification and assessment of the risks of material misstatements in Argyll and Bute Council's financial statements.

Decision

The Audit Committee;

- i) noted the report; and
- ii) noted that this is the last year of Audit Scotland's five year audit appointment.

(Reference: Report by Audit Scotland dated February 2016, submitted)

12. AUDIT SCOTLAND REPORTS

The Committee considered a report noting key findings from two recent reports prepared by Audit Scotland;

- Argyll and Bute Council Best Value Audit 2015 which was published in December 2015; and
- Health and Social Care Integration which was also published in December 2015.

In addition to the Health and Social Care Integration report, the Assistant Director of Audit Scotland gave a verbal update on the national picture and on specific audits which included detail on;

- The budget setting process and what happens when under or overspend occurs; performance monitoring; production of accounts (noting that the Health Board accounts are signed off 30 June 2016); clarity of timetables; posting of transactions ensuring any relevant expenditure is attributed to Argyll and Bute Council or the Health Board; and data transfer ensuring data protection risks are considered when both organisations are sharing personal data.

Decision

The Audit Committee;

- i) noted the contents of the reports prepared by Audit Scotland; and
- ii) in relation to page 184, paragraph 85 of the Best Value Audit 2015, agreed to monitor progress of the Council's actions to maintain improvement.

(Reference: Report by Head of Strategic Finance dated 2 March 2016, submitted)

13. AUDIT COMMITTEE DEVELOPMENT PLAN

A report was considered by the Committee which provided a progress update in respect of the Audit Committee Development Plan action points. The plan is a rolling document and is underpinned by effectiveness session activity.

Decision

The Committee;

- i) noted the report and updated 2015/2016 Audit Committee Development Plan;
- ii) discussed the potential content of protocols to enhance the effectiveness of the Committee and its meetings;
- iii) noted the Vice Chair and the Chief Internal Auditor would discuss how further effectiveness activity would best benefit the Committee's changing membership; and
- iv) approved the removal of action points showing as complete.

(Reference: Report by Vice Chair, Audit Committee dated March 2016, submitted)

14. AUDIT COMMITTEE WORKPLAN

The Committee considered the outline workplan to facilitate forward planning of reports to the Audit Committee.

Decision

The Committee;

- i) noted the workplan;
- ii) agreed the addition of IT Risk Assessment to the December 2016 meeting;
and
- iii) agreed the removal of the Tax Risk Review from March 2017.

(Reference: Report by Executive Director – Customer Services dated 11 March 2016, submitted)

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**ARGYLL & BUTE COUNCIL
CUSTOMER SERVICES
STRATEGIC FINANCE**

AUDIT COMMITTEE

17 June 2016

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. EXECUTIVE SUMMARY

- 1.1. This report advises that the Council's Governance Group has reviewed the action plan for 2015/16 and updated the content of the local code of corporate governance to reflect the governance position within the Council for 2015/16.
- 1.2. The Governance Group has prepared an action plan for 2016/2017.
- 1.3. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2015/16.

2. RECOMMENDATIONS

- 2.1 The Audit Committee approve the content of the revised Code of Corporate Governance for 2015/16
- 2.2 The Audit Committee approve the content of the Action Plan for 2016/17
- 2.3 The Audit Committee approve the draft statement of governance and internal control for 2015/16

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

This report advises that the Council's Governance Group has reviewed the content of the local code of corporate governance to reflect the governance position within the Council for 2015/16. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2105/16. The Governance Group has prepared an action plan for 2016/2017.

2. RECOMMENDATIONS

- 2.1 The Audit Committee approve the content of the revised Code of Corporate Governance for 2015/16
- 2.2 The Audit Committee approve the content of the Action Plan for 2016/17
- 2.3 The Audit Committee approve the draft statement of governance and internal control for 2015/16

3. DETAIL

- 3.1 CIPFA and SOLACE published a revised Framework for 'Delivering Good Governance in Local Government' in 2007. The Framework was intended to define the principles that should underpin the governance of local authorities and provides a structure to assist authorities with their own approach to governance. The Framework took the six core principles, from the 'Good Governance Standard for Public Services' (2004), and adapted these principles for local government, identifying eighteen supporting principles.
- 3.2 The Council's Governance Group, chaired by the Executive Director of Customer Services as Monitoring Officer, has responsibility for the preparation of the Code of Corporate Governance along with an Action Plan which identifies areas within the Council where work to improve the governance arrangements within the Council is being undertaken or is necessary.

The Governance Group is of the view that the actions on the action plan for 15/16 (appendix 1) have been progressed.

The Governance Group includes:

- Head of Strategic Finance (s95 Officer);
- Head of Improvement & HR;
- Head of Governance and Law;
- Governance and Risk Manager;
- Chief Internal Auditor.

3.3 The six core principles contained in the local code are;

Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

Members & Officers working together to achieve a common purpose with clearly defined functions and roles

Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Developing the capacity and capabilities of members and officers to be effective

Engaging with local people and other stakeholders to ensure robust public accountability

The revised code (appendix 2) includes links to the evidence demonstrating compliance with these six core principles.

3.4 The review of the effectiveness of the system of governance and internal control is informed by the:

- Work of Officers within the Council;
- Work of External and Internal Audit;
- Statements of Governance or Internal Control provided by external bodies;
- External review and inspection reports; and
- Recommendations from the Audit Committee
- Recommendations from the Performance, Review and Scrutiny Committee.

3.5 It is recommended that the Audit Committee approve the revised code of Corporate Governance for 2015/16 (appendix 2), the action plan 16/17 (appendix 3) and the draft statement of governance and internal control for 2015/16 (appendix 4).

4. CONCLUSION

This review of the content of the local code of corporate governance gives

assurance about the robustness of the Council's governance arrangements.

5. IMPLICATIONS

POLICY In line with SORP and recommended practice

FINANCIAL None

HR None

LEGAL Monitoring Officer statutory role, remit includes governance

EQUALITIES None

RISKS None

CUSTOMER SERVICE None

Douglas Hendry
Executive Director – Customer Services

For further information please contact:
Iain Jackson, Governance and Risk Manager
01546 604188

Appendices

Appendix 1 - Action plan for 15/16

Appendix 2 - Revised code of corporate governance

Appendix 3 - Action plan for 16/17

Appendix 4 - Draft statement of governance and internal control 15/16

Argyll and Bute Council – Corporate Governance Action Plan 2015/2016

The Corporate Governance Action Plan outlines the actions required to raise areas rated as partially compliant to a level rated as fully compliant with the requirements of the code along with actions being undertaken to maintain some areas rating as fully compliant.

Ref	Local Code	Actions to achieve compliance	Success measures	Key dates	Lead	Ref.
CG-1	Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	The Council's risk management activity has been assessed as Embedded with 2 themes rated "working" and a further 5 themes at the higher embedded stage.	Continue to show year on year improvement against CIPFA benchmarking	31 March 2016	Head SF	CG Code 4.3.1
CG - 2	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	Actions from the follow-up audit from Audit Scotland are agreed and completed. The Council retains an on-going aspiration for greater openness where practicable.	All actions are completed	31 March 2016	Ch Exec Exec Dir – Customer Services	CG Code 3.1.1
CG - 3	Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out	PDP's for Members engaged in the process and PRD's for Officers identify relevant training needs and have	PDP's completed and development plans in place. Corporate target for completion of Officers	31 March 2016	CH Exec and all Executive Directors	CG Code 5.2.1

	effectively	development plans in place	PRD's achieved			
CG - 4	Decide how value for money (VFM) is to be measured and make sure the Authority has the information needed to review VFM and performance effectively.	Any actions brought out by the Audit Scotland assessment of how Asset Management is discharged within the Council will be addressed during 15/16.	All actions are completed	31 March 2016	Exec Dir – Customer Services	CG Code 1.3.1



Code of Corporate Governance

Date 31 May 2016
Version 1.1 – annual update

Principle 1: Focussing on the purpose of the Authority and on the outcomes for the community, and creating and implementing a vision for the local area

1.1 Supporting Principle: Exercising Strategic Leadership by developing and clearly communicating the Authority's purpose and vision and its intended outcome for citizens and service users

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
1.1.1 Develop and promote the Authority's purpose and vision	The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive/ ED – Customer	3 3	Head of I and HR
	Clear terms of reference are set for the preparation of service plans in the Planning and Performance Management Framework to ensure fit with the Corporate Plan Service Plans clearly reflect corporate objectives	Chief Executive/ Executive Directors	3 3	All Service Heads
	Documented meetings have taken place to discuss key objectives in Corporate and Service Plans	Chief Executive	3 3	Executive Directors
	A Communications Strategy has been implemented. Public Performance Reporting Strategy has been implemented. Public Performance Reporting	Chief Executive	3 3	Head of I and HR
1.1.2 Review on a regular basis the Authority's vision for the local area and its implications for the Authority's governance arrangements	Local Code of Corporate Governance has been developed in line with CIPFA/SOLACE guidelines	ED – Customer	3 3	Head of G and L

	Annual review of the Corporate Plan	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Annual review of Service Plans	Executive Directors	3	3	All Service Heads
1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	Corporate framework for all partnerships within Argyll and Bute Community Planning Partnership Roles and responsibilities defined for Argyll and Bute Community Planning Partnership	Chief Executive	3	3	Head of C & C
1.1.4 Publish an Annual Report on a timely basis to communicate the Authority's activities and achievements, its financial position and performance	Prepare and publish an Annual Report	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish report for local government benchmarking framework Public Performance Reporting	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3	3	Head of SF

1.2 Supporting Principle: Ensuring that users receive a high quality of service whether directly, in partnership, or by commissioning

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16		Lead Officer
1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish Statutory/Defined Performance Indicator Report. Public Performance Reporting	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Documented meetings have taken place to discuss performance at service level PRS Committee	Chief Executive/ Leader	3	3	Executive Directors / Members
1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters.	ED – Customer	3	3	Head of G and L

	Audit Committee meetings Part D of Constitution Performance, Review and Scrutiny Committee has also been established PRS Committee				
	The Council is proactive in reviewing its services through the internal audit team and external auditors Internal Audit Plan in place	Chief Executive	3	3	Head of SF
	The Council has a formally established complaints policy and procedure Complaints procedure web Unified approach to complaints handling across the organisation with a common point of entry. Staff have been trained in dealing with complaints and empowered and supported to deal with complaints	ED – Customer	3	3	Head of G and L
	The complaints system records actions taken to prevent complaints recurring, and evidence that complaints inform positive service improvement. Regular testing of the complaints handling system to ensure it meets consumer needs and expectations	ED – Customer	3	3	Head of G and L
	The Council has in place robust Critical Activity Recovery Plans for its identified critical activities which are subject to regular review and testing	ED - Customer	3	3	Head of G and L

1.3 Supporting Principle: Ensuring that the Authority makes best use of resources and that tax payers and service users receive excellent value for money

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
1.3.1 Decide how value for money (VFM) is to be measured and make sure the Authority has the information needed to review VFM and performance effectively. Measure the environmental impact of policies, plans and decisions.	Reviews of Council services to ensure best value principles adhered to Benchmarking: comparing economy, efficiency and effectiveness of services through our involvement in the Local Government Benchmarking Framework benchmarking framework Asset Management BV review	Chief Executive	3 3	All Directors
	A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF	Chief Executive/ ED - Customer	3 3	Head of I and HR
	The authority responds positively to and acts upon the findings and recommendations of external scrutiny Audit Scotland Report and action plan Audit Scotland Follow-up Audit 2014	Chief Executive	3 3	Chief Executive
	The Council is proactive in reviewing its services through the internal audit team and external auditors Audit Committee Performance Review and Scrutiny Committee	SMT Audit Committee	3 3	Head of SF
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3 3	Head of SF
	Prepare and publish report for local government benchmarking framework	Chief Executive/ ED - Customer	3 3	Head of I and HR

Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

2.1 Supporting Principle: Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions, and the roles and responsibilities of the scrutiny function

<u>Evaluation Key</u>
1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of senior officers	Statement of roles of Leader and Chief Executive included within the Council Constitution and will be reviewed annually. Part A of constitution	ED – Customer	3 3	Head of G and L
	The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution	ED – Customer	3 3	Head of G and L
	Local Code of Corporate Governance developed in line with CIPFA/SOLACE guidelines	ED – Customer	3 3	Head of G and L
	Roles and responsibilities defined for Argyll and Bute Community Planning Partnership	Chief Executive	3 3	Head of C and C

2.2 Supporting Principle: Ensuring that a constructive working relationship exists between the authority members and officers, and that the responsibilities of members and officers are carried out to a high standard

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
2.2.1 Determine a scheme of delegation and reserve powers within the constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.	The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution	ED – Customer	3 3	Head of G and L
	There are Terms of Reference and reporting arrangements for all sub-committees of the Authority Part C of Constitution	ED – Customer	3 3	Head of G and L
2.2.2 Make the Chief Executive responsible and accountable to the authority for all aspects of operational management.	Responsibilities of Chief Executive detailed within Council Constitution Part A of Constitution	ED – Customer	3 3	Head of G and L
2.2.3 Make a senior officer (the Section 95 Officer) responsible to the authority for ensuring that appropriate advice is given for all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control.	Section 95 Officer role identified in the Council Constitution and included as a member of the Strategic Management Team Part A of Constitution	Chief Executive ED – Customer	3 3	Head of SF
	Standing Orders and financial regulations contained in the Council Constitution Constitution	ED – Customer	3 3	Heads of G and L C and S SF
	Council Accounts comply with statutory and professional reporting standards and are prepared and approved in accordance with a preset timetable Part D of Constitution	Chief Executive	3 3	Head of SF
2.2.4 Make a senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.	Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution taking account of comments from Audit Scotland report. Constitution Monitoring Officer Protocol in place	ED – Customer	3 3	ED – Customer

2.3 Supporting Principle: Ensuring relationships between the authority, its partners and the public are clear so that each other knows what to expect of the other

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
2.3.1 Develop protocols to ensure effective communication between members and officers in their respective roles	<p>Protocols for Member / Officer relations detailed in the Council Constitution Constitution</p> <p>The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution</p> <p>Recommendations in Audit Scotland Report approved and Action Plan agreed</p> <p>Monitoring Officer Protocol in place Audit Scotland Report and action plan Audit Scotland Follow-up Audit 2014</p>	ED – Customer	3 3	Head of G and L
2.3.2 Ensure that an established scheme for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place.	<p>Structured pay scales reflecting competence for Officers; Core Conditions of Service for Officers Core conditions of service</p> <p>Scheme for Member remuneration and allowances. Part F of Constitution</p>	Chief Executive/ ED – Customer	3 3	Head of I and HR
2.3.3 When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.	<p>Roles and responsibilities defined for Argyll and Bute Community Planning Partnership</p> <p>Reference within Councillor Code of Conduct to partnership working Part F of Constitution</p> <p>Members Training refers to Improvement Service notebook on Corporate Governance</p>	Chief Executive	3 3	Head of C and C

Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

3.1 Supporting Principle: Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance

<u>Evaluation Key</u>
1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
3.1.1 Ensure that the authority’s leadership sets a tone for the organisation by creating a climate of openness, support and respect.	Recommendations in Audit Scotland Report approved and Action Plan agreed. Audit Scotland Report and action plan Audit Scotland Follow-up report 2014	ED – Customer	3 3	Head of G and L
	The Council Constitution contains Standing Orders for meetings, a Scheme of Administration and Delegations, an Ethical Framework and a Code of Conduct Constitution		3 3	
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
	The Council has a formally established complaints policy and procedure. Complaints procedure Complaints procedure web	ED – Customer	3 3	Head of G and L
	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3 3	Head of G and L
	Compliance with the Data Protection and Freedom	ED – Customer	3 3	Head of

	of Information Acts FOI and DP				G and L
3.1.2 Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	<p>Protocols for Member / Officer relations detailed in the Council Constitution.</p> <p>The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution</p>	ED – Customer	3	3	Head of G and L
3.1.3 Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	<p>Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution</p> <p>Register of Members Interests is maintained Form issued to Members</p>	ED – Customer	3	3	Head of G and L
		ED – Customer	3	3	Head of G and L

3.2 Supporting Principle: Ensuring that organisational values are put into practice and are effective

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16		Lead Officer
3.2.1 Develop and maintain shared values for both the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	<p>The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement</p> <p>Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website</p>	Chief Executive	3	3	Head of I and HR
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	<p>The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution</p> <p>The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol</p>	ED – Customer	3	3	Head of G and L
		ED – Customer	3	3	Head of G and L

	on Member / Officer relations, Public Interest Disclosure Policy Constitution			
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Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and risk

4.1 Supporting Principle: Being rigorous and transparent about how decisions are taken, and listening and acting on the outcome of constructive scrutiny

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenges and enhances the authority's performance overall and that of any organisation for which it is responsible.	The role of scrutiny has been established through a scheme of delegation and committee structures. Part C of Constitution Performance review and Scrutiny Committee has been established	ED – Customer	3 3	Head of G and L
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3 3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
4.1.3 Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	Protocols of Member / Officer relations detailed in the Council Constitution Part F of Constitution	ED – Customer	3 3	Head of G and L
	Protocols for Member / Officer relations detailed in the Council Constitution. The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members	ED – Customer	3 3	Head of G and L

	Part F of Constitution			
	The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution	ED – Customer	3 3	Head of G and L
	Register of Members Interests is maintained Form issued to Members	ED – Customer	3 3	Head of G and L
	The Council Constitution contains Standing Orders relating to Contracts Part E of Constitution	ED – Customer	3 3	Heads of G and L C and S, SF
4.1.4 Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other arrangements for the discharge of the functions of such a committee.	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Performance, Review and Scrutiny Committee in place. Audit Committee meetings Part D of Constitution	ED – Customer	3 3	Head of G and L

4.2 Supporting Principle: Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
4.2.1 Ensure that those making decisions are provided with information that is fit for purpose, relevant, timely, and gives clear explanations of technical issues and their implications.	Relevant information available to decision makers	Executive Directors	3 3	Executive Directors
4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately.	Relevant advice and information available to decision makers	Executive Directors	3 3	Executive Directors

4.3 Supporting Principle: Ensuring that an effective risk management system is in place

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
4.3.1 Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	A risk based approach is a key component of the Council's approach to Planning and Performance Management (Service Planning process requires identification of associated risks. Budget Monitoring process is risk based where a number of criteria are used to classify risk category of particular cost centres.) Service Plans	Chief Executive	3 3	Head of SF
	Strategic and Operational Risk management procedures and processes in place The Strategic Risk Register has been reviewed in detail as part of the agreed 6 monthly cycle and was reported to Council in February 2015 February report to Council Reports to Performance Review and Scrutiny Committee as part of the agreed 6 monthly cycle and was reported to Council in 26 February 2015. Report to PRS Operational risk registers are maintained on a live basis and a report submitted to the Strategic Risk Group whose work is now subsumed into SMT The Council is a member of the CIPFA benchmarking club for risk management.	Chief Executive	3 3	Head of SF
	Appropriate training on risk management is provided to Members and Officers.	Chief Executive	3 3	Head of SF

	Risk Management Training			
	Key documents to underpin the approach to risk management include a Risk Management Policy Statement and Risk Management Guidance.	Chief Executive	3 3	Head of SF
	The SMT has a role to oversee the effectiveness of risk management	Chief Executive	3 3	Head of SF
	Progress reports on the development of risk management have been submitted to the Audit Committee during the year. This included the commissioning by the Audit Committee of an assurance map using the recognised 3 lines of defence model.	ED – Customer	3 3	Head of G and L
	Audit Committee Reports			
4.3.2 Ensure that arrangements are in place for whistle-blowing to which staff and all those contracting with the authority have access.	Whistle blowing policy Public Interest Disclosure Policy in Council Constitution Part D of Constitution - anti-fraud strategy including public interest disclosure policy	ED – Customer	3 3	Head of G and L

4.4 Supporting Principle: Using their legal powers to the full benefit of the citizens and communities in their area

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
4.4.1 Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities.	Council Constitution reflects the legal requirements placed upon the authority Constitution	ED – Customer	3 3	Head of G and L
	Statutory Plans, for example Local Development Plan local development plan	ED – D and I	3 3	Head of P and R
	Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution. Constitution	ED – Customer	3 3	ED – Cus S
4.4.2 Recognise the limits of lawful action and observe both the specific requirements of	Training provided to relevant Members and Officers in areas of identified need, for example	ED – Customer	3 3	Head of G and L

legislation and the general responsibilities placed on local authorities by public law	Planning and Licensing matters Elected Member Resources				
	Advice from the Council’s Chief Legal Officer or their nominated Officer is available at all decision making meetings Legal advice is available to all departments from the Council’s Legal Services department	ED – Customer	3	3	Head of G and L
4.4.3 Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice, into their procedures and decision making processes.	Council Constitution reflects the legal requirements placed upon the Council Constitution	ED – Customer	3	3	Head of G and L
	Senior Officer designated as Monitoring Officer. Roles and responsibilities set out in the Council Constitution Constitution	ED – Customer	3	3	ED – Customer

Principle 5: Developing the capacity and capabilities of members and officers to be effective

5.1 Supporting Principle: Making sure that members and officers have the skills, knowledge and experience, and resources they need to perform their roles well		Evaluation Key 1. Not compliant with local code requirements 2. Partially compliant with local code requirements 3. Fully compliant with local code requirements 4. Exceeds the requirements of the local code		
Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
5.1.1 Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	Induction Training provided to all new Elected Members	ED – Customer	3 3	Head of G and L
	The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Code of conduct in Constitution	ED – Customer	3 3	Head of G and L
	Corporate Induction Programme in place for all new employees	ED – Customer	3 3	Head of I and HR
	Development and performance review process in place for eligible employees, with training and development plans	ED – Customer	3 3	Head of I and HR
5.1.2 Ensure that statutory officers have the skills, resources and support necessary to perform actively in their roles and that these roles are properly understood throughout the authority.	Development and performance review process in place for eligible employees, with training and development plans	ED – Customer	3 3	Head of I and HR
	Job descriptions and Person Specifications in place for employees	ED – Customer	3 3	Head of I and HR

5.2 Supporting Principle: Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
5.2.1 Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.	Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members	ED – Customer	3 3	Head of I and HR
	Training provided to relevant Members and Officers in areas of identified need Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3 3	Heads of I and HR G and L
5.2.2 Develop skills on a continuing basis to improve the performance, including the ability to scrutinise and challenge and to recognise when outside advice is needed.	Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members	ED – Customer	3 3	Head of I and HR
	Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3 3	Heads of I and HR G and L
	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters.	ED – Customer	3 3	Head of G and L

	Audit Committee meetings Part D of Constitution				
5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might for example, aim to address any training or development needs.	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Audit Committee meetings Part D of Constitution	ED – Customer	3	3	Head of G and L
	Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3	3	Head of I and HR
	Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources	ED – Customer	3	3	Heads of I and HR G and L

5.3 Supporting Principle: Encouraging new talent so that best use can be made of individuals skills and resources in balancing continuity and renewal

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer	
5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all section of the community to engage with, contribute to and participate in the work of the Authority.	Community and Employee engagement activity Better Community Engagement Pack	Chief Executive	3	3	Executive Directors

Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

6.1 Supporting Principle: Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships		Evaluation Key			
		<ol style="list-style-type: none"> 1. Not compliant with local code requirements 2. Partially compliant with local code requirements 3. Fully compliant with local code requirements 4. Exceeds the requirements of the local code 			
Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16		Lead Officer
6.1.1 Clearly defined lines of accountability	Public Performance Reporting Strategy Communications Strategy Better Community Engagement Pack	Chief Executive/ ED – Customer	3	3	Head of I and HR
	The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive/ ED – Customer	3	3	Head of I and HR
6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required.	Ability to communicate with discrete groups in an appropriate manner Communications Strategy	Chief Executive	3	3	Executive Directors
6.1.3 Produce an annual report on the activity of the scrutiny function.	Annual Audit Committee report Annual Report	Chief Executive	3	3	Head of SF

6.2 Supporting Principle: Taking an active and planned approach to dialogue with, and accountability to, the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16	Lead Officer
6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively.	Ability to communicate with all groups in an appropriate manner Social Media Policy Communications Strategy	ED – Customer	3 3	Head of I and HR
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3 3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
	Compliance with the Data Protection and Freedom of Information Acts FOI and DP	ED – Customer	3 3	Head of G and L
6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sectors of the community effectively. These arrangements should recognise that different sections of the community have different priorities and established explicit processes for dealing with these competing demands.	Ability to communicate with discrete groups in an appropriate manner Better Community Engagement Pack	Chief Executive	3 3	Executive Directors
6.2.4 On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and satisfaction of service users in the previous period.	The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive/ ED – Customer	3 3	Head of I and HR
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3 3	Head of SF
	Prepare and publish an Annual Report	Chief Executive/ ED – Customer	3 3	Head of I and HR
	Prepare and publish report for local government benchmarking framework Public Performance Reporting	ED – Customer	3 3	Head of I and HR

6.2.5 Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3	3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3	3	Head of G and L
	Compliance with the Data Protection and Freedom of Information Acts FOI and DP	ED – Customer	3	3	Head of G and L

6.3 Supporting Principle: Making best use of human resources by taking an active and planned approach

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 14/15 15/16		Lead Officer
6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	The Council has in place an Employee Joint Consultative Committee (EJCC) Minutes of EJCC	ED – Customer	3	3	Head of I and HR
	Structure for Trade Union engagement in place				
	Development and performance review process in place for all employees, with training and development plans PRD process employees PDP Process Members	ED – Customer	3	3	Head of I and HR
	Mechanisms and processes are in place for communication and engagement with employees The Hub – news – cascade	ED – Customer	3	3	Head of I and HR
6.3.2 Planned approach to securing a workforce for the future	The Council has in place strategies for the Recruitment and Retention of employees	ED – Customer	3	3	Head of I and HR

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Argyll and Bute Council – Corporate Governance Action Plan 2016/2017

Ref	Local Code	Actions to achieve compliance	Success measures	Key dates	Lead	Ref.
CG-1	Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	The Council's risk management activity has been assessed as Embedded and integrated with individual category scoring demonstrating year on year improvement.	Continue to show year on year improvement against CIPFA benchmarking	31 March 2017	Head SF	CG Code 4.3.1
CG-2	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	Improvement plan in place re the Accounts Commission findings on the Controller of Audits Statutory Report. Council will increase the number of consultations on key issues.	All actions are completed	31 March 2017	Ch Exec Exec Dir – Customer Services	CG Code 3.1.1
CG -3	Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out	PDP's for Members engaged in the process and PRD's for Officers identify relevant training needs and have	Programme of development opportunities/seminars offered to members over the course of the year Corporate target for	31 March 2017	Ch Exec and all Executive Directors	CG Code 5.2.1

Appendix 3

	effectively	development plans in place	completion of Officers PRD's achieved New member induction training programme and materials prepared		Head G&L	
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BACKGROUND / SCOPE OF RESPONSIBILITY

The governance framework includes the systems, processes and culture by which the Council is controlled, and engages with its communities. It allows the Council to monitor the achievement of its strategic objectives. Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

The system of internal control is a key part of the framework, and is designed to manage risk to an acceptable level.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). This Statement explains how Argyll & Bute Council has complied with the standard and meets the requirements of current good practice.

A copy of the Code may be obtained from the Head of Governance and Law, Kilmory, Lochgilphead, PA31 8RT and is also available on the Council's website.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies. The six key principles of our governance arrangements in 2015-16 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area

Our Corporate Plan 2015-17 sets out our mission "To make Argyll and Bute a place people choose to live, learn, work and do business". The Corporate Plan supports the Single Outcome Agreement and Delivery Plan. The focus of the priorities is to ensure that more jobs and more people are attracted into Argyll & Bute and progress against outcomes and targets is monitored on a regular basis by the Community Planning Partnership.

We have a Planning and Performance Management Framework (PPMF) that ensures performance is integral to the work of the Council. The PPMF details the structure and process for performance management at all levels. Plans specify the outcomes to be achieved aligned to success measures, as well as risks to be reduced.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level performance is scrutinised

through our Strategic Committees and more locally at our Area committees. The Performance Review and Scrutiny Committee, which meets four times a year has a key role in reviewing and scrutinising how we are meeting our strategic objectives.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

We updated our constitution in June 2016 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.

The constitution includes collective and individual roles and responsibilities of the Leader, Provost, Policy Lead Councillors, other councillors and officers. It also includes a protocol for the role of the Monitoring Officer (the Executive Director for Customer Services).

The Council was the subject of follow-up audit by the Controller of Audit during 2014-15 which concluded that the Council had responded constructively to the Accounts Commission findings on the 2013-14 statutory report and was making progress with improvement work.

The Controller of Audit provided an updated report on the Council's arrangements to the Accounts Commission in 2015 which concluded:

“The Commission accepts this report by the Controller of Audit on progress made by Argyll and Bute Council since our 2013 and 2014 reports on Best Value in the Council.

The Commission acknowledges and welcomes the progress by the Council since 2013 in relation to improved governance, decision making and scrutiny arrangements and the improving relationships between political groups and between members and officers.

Members and senior officers need to consolidate this progress by continuing to improve the Council's openness, transparency and how it involves its communities in decision-making and scrutiny, in order to build the trust and confidence of service users and the public. More can be done to ensure a more effective contribution from area committees.

The council's current approach to the scale of the financial challenge it faces is not sustainable. This approach urgently needs to be more clearly linked to the Council's priorities and based on rigorous appraisal of options for service redesign. This is not a conclusion from the Audit Scotland report that we were in full agreement with”. This is not a conclusion from the Audit Scotland report that the Council were in full agreement with.

“The Commission notes with disquiet the dysfunctional relationships which persist between a number of individuals. The Commission is firmly of the view that the interests of the public are best served by a shared commitment by all parties to maintaining constructive relationships and high standards of conduct.

We will maintain our interest in the progress made by the Council. The Controller of Audit will continue to monitor progress through the annual audit process”.

3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

We have four values, which underpin what we do and how we do it:

- we involve and listen to our customers and communities
- we take pride in delivering best value services
- we are open, honest, fair and inclusive
- we respect and value everyone

We have developed and communicated an Ethical Framework within the Council's Constitution, which defines standards of behaviour for members and staff. Protocols for Member/Officer relations are also detailed within the Constitution.

The Councillor's Code of Conduct is set out at a national level, applying to all members in Scottish local authorities. A register of members interests is being developed for inclusion on the Council's website.

The code of conduct and protocols are supported by training and development programmes for both members and officers.

4. Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk; ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls in place to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair.

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. Both the Audit Committee and the Performance Review and Scrutiny Committee receive regular reports on the risk management framework. The Performance Review and Scrutiny Committee are developing a handbook on the framework for undertaking scrutiny and have outlined a scrutiny timetable.

The anti-fraud strategy was reviewed and there are effective arrangements for whistle-blowing and for receiving and investigating complaints from the public and partners.

The Counter Fraud Investigation Team was established in October 2015 and is the single point of contact for the DWP regarding Housing Benefit cases. It is responsible for fraud investigation relating to Council Tax discounts and

exceptions and the overall Council Tax reduction scheme and assists internal audit in broader counter fraud activities

5. Developing the capacity and capability of members and officers to be effective

Elected Member Development

We have signed up to the Improvement Service's Continuing Professional Development Framework for elected members. The majority of elected members now have personal development plans in place and dedicated days are set aside for member training and seminars on key issues.

The Audit Committee and Performance Review and Scrutiny Committees each held development days in 2015-16, and have agreed workplans for improvement. The Audit Committee self-assessed its effectiveness, and identified key actions which were taken forward during 2015-16, including the development of protocols for co-ordination of work with the PRS Committee, and the development of a materiality matrix.

Officer Development

The council supports officer development through a structured approach, driven by the values set out in the Corporate Plan, supported by a behavioural competency framework and underpinned by a systematic approach to identifying core and mandatory training requirements in all council job descriptions.

The council has also implemented an Argyll and Bute Manager and Leadership Programme, which ensures that all employees who have management responsibilities are knowledgeable and effective in delivering services within the priority management policies and procedures of the council, including finance, performance and people management. The Leadership Programme ensures that senior and aspiring leaders in the organisation have support to develop their leadership behaviours and to improve their overall impact and performance across the organisation.

The council is committed to delivering a programme of annual Performance Review and Development, which in turn informs the Corporate Training Programme that is delivered annually.

6. Engaging with local people and other stakeholders to ensure robust public accountability.

We have established clear channels of communication with the community and other stakeholders through our Communication Strategy. Key mechanisms include;

Annual Budget Consultation

The Council undertakes a wide ranging budget consultation exercise each year, using a range of channels including written, face to face, online, Community Councils and through partner organisations and community groups in the

Community Planning Partnership. The results of the consultation are then used to inform the members' budget decision making process and are reported to the Council as part of the budget reports pack.

Consultation Diary

The Council has developed a consultation section on its website which hosts all consultations run by the council, both current and historic. This includes a section which makes public the results and/or outcome of the consultation and the resultant decisions that have been taken, showing how they have been informed by the consultation process.

Public Performance Reporting

The council makes all performance information available to the public on the Performance pages of the website. This includes information on performance scorecards, budgets and other service related information. This ensures that the council is openly accountable to the public for its performance against agreed policies and standards.

Community Engagement

The Council supports good community engagement with the resourcing of Community Development Officers in Community Services and the work of the Youth Forum staff in Youth Services. Both teams have resources and expertise to support children and young people, hard to reach groups, remote communities to have a voice in local service planning, delivery and evaluation, as well as best community engagement practice for any other requirement.

Local Community Development Officers have also been supporting community groups, organisations and individuals, particularly those who do not traditionally engage in community issues, to participate in local area community planning groups.

The Area Governance section of the Council supports community engagement by providing the staff resource to support four Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning at a local area throughout Argyll & Bute.

It also supports community engagement at grass roots level by providing support to local partnerships which feed into the activities of the Area Community Planning Groups and by resourcing Community Council Liaison activities, including a training programme, which helps to build the capacity of Community Councils.

Council/Committee Meetings

Meetings are always held in public, unless one of the statutory exemptions in the Local Government (Scotland) Act 1973, schedule 7A applies to the content of the report. When this is the case papers are adjusted to ensure that the maximum amount of content is in the public domain.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The legislative framework of local government defines a number of posts which are primary to the governance arrangements in the Council. These include the Chief Executive, fulfilling the role of Head of Paid Service. As Monitoring Officer, the Executive Director of Customer Services has responsibility for:

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service

Specific responsibilities are assigned to the Head of Strategic Finance, as Chief Finance Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Finance Officer has in relation to financial performance and the financial control environment, CIPFA has set out key principles that define the core activities and behaviours that belong to the role. These include, being a key member of the Leadership Team, being actively involved in and influencing decision making, and leading the delivery of good financial management across the whole organisation.

After a full recruitment process which searched UK wide, the Council appointed a new Head of Strategic Finance who commenced the role on 1 October 2015.

AUDIT SCOTLAND FOLLOW-UP AUDIT

The Council was the subject of follow-up audit by the Controller of Audit during 2015-16. The follow-up audit considered the actions taken by the Council in response to the statutory report in 2013-14 and the first follow up audit and concluded that the Council had made progress in addressing the issues raised in the 2013-14 audit.

The controller of audit made the follow conclusions in respect of this further follow up audit namely:-

The council still has some areas where it needs to improve. These include:

- Establishing a more open and transparent culture and style of working. This includes appearing less defensive in dealing with conflict and minimising the amount of business it carries out in private. It needs to do this to reduce complaints about a lack of openness and build greater trust with communities. Learning from other organisations that demonstrate the greatest degree of openness will assist with this.

- Continuing to seek a resolution to long-standing and deep-rooted relationship difficulties between some members and between the council's leadership and one of the Argyll and Bute constituency MSPs.
- Taking a more innovative approach to dealing with its financial challenges that is in line with its strategic vision and priorities for the area. This includes looking beyond reducing or withdrawing services and more fundamentally examining how it can do things differently.
- Demonstrating more clearly how it takes on board consultation feedback from its communities, to build a greater level of trust and willingness to work with communities. This will be important in taking forward Service Choices.
- Strengthening local empowerment and embracing the enthusiasm of local communities to be more involved in the work of the council. This includes building on existing area committee and community planning structures and exploring possible opportunities under the Community Empowerment Act to give local people more say in decisions.
- Exploring all options for providing training and development for all members in a way that is most accessible and has greatest impact.

The Council considered the report and the Accounts Commission conclusions at its meeting In January 2016 and determined as follows :-

The Council -

1. Welcomed the findings, particularly in relation to the progress that the Council has made; the improvements in political and managerial leadership, decision making and scrutiny with a consequent reduction in risk.
2. Welcomed the recommendations to consolidate progress and build on this to ensure a sustainable future particularly at a time of significant financial challenge.
3. Agreed to accept the recommendations and the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings.

The development of an improvement plan is in hand which will seek to continue the progress made by the Council in addressing the findings of the various audit reports referenced, as part of the overall approach to the wider aspirations of the Council to continue to seek improvement to service delivery.

FINANCIAL SUSTAINABILITY

The budget approved in February 2016 has created a solid foundation to work from. One of the key elements of our budget strategy over the last year was a service review/service prioritisation process entitled "Service Choices" and this was designed to match budget to Members priorities. Savings options were created and were subject to public consultation. Members made a decision on all the options presented and some are deliverable in 2016-17 and for others where there is more service redesign, they will be deliverable in future years.

The Council agreed, in February 2016 to create three new Funds, totalling £4.5m all designed to help to support the economy and grow our population. The Council also agreed to create an Asset Management and Investment Fund of £2m with the purpose of generating income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.

Our Council have been committed to transformation and delivering services as innovatively as possible and over the last few years have delivered various transformation projects. As part of our budget consultation we also asked the public to write in with ideas on how they think services can be delivered differently. We created an innovation fund in October 2015 (£100k) that is there to provide support to services in developing business cases for innovative ideas and engaged with all employees.

INTERNAL FINANCIAL CONTROL

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.

Development and maintenance of the system is undertaken by officers within the Council.

In particular the system includes:

- Comprehensive budgeting systems
- Regular reviews by the Council and the above named bodies of periodic and annual financial reports which indicate financial performance against forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against forecast;
- Clearly defined capital expenditure guidelines;
- Project management disciplines;
- Guidance relating to financial processes, procedures and regulations; and
- An effective Internal Audit Function

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised

and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

This annual review also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies continued to mature. The Chief Executive submitted an annual report on Audit and Risk Management to the Audit Committee. We have developed risk tolerance and risk appetite thresholds within our Strategic Risk Register which was also reviewed and agreed by SMT who will continue to review risks on a regular basis and ensure that active mitigations are in place.

Operational Risk Registers are reviewed and updated on a regular basis and inform performance scorecards. Results from the annual CIPFA benchmarking exercise demonstrated an improvement within individual categories with an overall Embedded and Integrated rating.

During 2015-16, the Audit Committee considered an updated assurance map, prepared by internal audit, which highlighted the Council's key risks, and the source and level of assurance that the Council receives on those risks, based on the three lines of defence model. Internal audit plans for 2016-17 have been targeted to provide the Audit Committee on areas where additional assurance is required.

A Risk Management Strategy has been developed by Argyll and Bute Health and Social Care Partnership and will be presented to both partner organisations for approval in May/June 2016 prior to it being approved by the Integrated Joint Board.

INTERNAL AUDIT

Argyll and Bute Council and the above named bodies have internal audit functions, which operate to Public Sector Internal Audit Standards (PSIAS). The work of internal audit is informed by an analysis of the risk to which the Council and the above named bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's Audit Committee endorses the analysis of risk and internal audit plans.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. The annual report includes an independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control and concludes that although a number of the areas reviewed provided a limited level of assurance, overall, systems for internal control were satisfactory during 2015-16.

Internal audit provides Members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External Audit places reliance on the work of internal audit.

The Chairman and Vice Chairman are independent lay members of the Audit Committee.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2016-17, particularly in the context of continuous improvement within the Council:

- During 2015-16 the Council received 1323 FOI requests of which 1227 (93%) were responded to within the required timescale. The Council received 47 requests for review (3.5%). FOI procedures were recently the subject of an internal audit report which confirmed a substantial level of assurance.
- Internal Audit presented 4 out of 30 reports with a limited level of assurance during the year. Management have accepted 100% of recommendations and have a robust follow-up system to track actions arising ensuring timely implementation through the SMT meeting programme.
- Development of delivery plans for the single outcome agreement (SOA) and ensuring these reflect council priorities.
- Local Scrutiny Plan 15/16 take cognisance of issues identified within the 2013/16 Assurance and Improvement Plan (AIP). The plan is based on a shared risk assessment undertaken by the local area network (LAN) and draws on a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way. The Council will be subject to a range of risk based and nationally driven scrutiny activity, the risk based scrutiny specifically relates to Audit Scotland Best Value follow up work. All other scrutiny arises from national scrutiny programmes.
- Ensuring that we have a sustainable budget for the future and that reduced budget/resources are aligned to support council priorities and SOA delivery plans. Whilst we have delivered a number of transformation savings already, we hope this area of work will deliver savings from 2017-18 onwards.
- Ongoing development of performance management and improving performance scrutiny.
- Further development of risk management to ensure that it remains embedded within council business.

- Ensuring the internal audit function is fully resourced and work is planned to ensure the 2016-17 audit plan is delivered and that further improvements in the development of internal audit are achieved.
- Having established the IJB, agreed the scheme of delegation and the 3 year strategic plan, ensure good governance and scrutiny arrangements are further developed and maintained in respect of the Health and Social Care Partnership.
- The actions being taken by the Council continues to improve political management arrangements and governance within the Council.
- Implement new legislation as it applies to and affects the provision of Council Services.
- Further enhance and improve the tone of our correspondence to further develop a climate of openness with our customers.

ASSURANCE

The annual review of the effectiveness of the system of governance and internal financial control is informed by:

- The work of officers within the Council;
- The work of Internal Audit as described above;
- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2015-16 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

Cllr Dick Walsh
Leader

Cleland Sneddon
Chief Executive

Kirsty Flanagan
Head of Strategic Finance

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****CHIEF EXECUTIVES UNIT****17 JUNE 2016**

INTERNAL AUDIT – ANNUAL REPORT 2015 - 16

1.0 EXECUTIVE SUMMARY

- 1.1 This report is a review of Internal Audit for the period 2015/2016 and provides overall opinion on the level of assurance in respect of effectiveness of financial and management controls.
- 1.2 The annual audit plan for 2015/16 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS).
- 1.3 The report outlines reporting responsibilities, provides commentary in relation to professional standards and provides an analysis of Internal Audit activity and progress during 2015/2016.
- 1.4 Audit Committee are asked to note the conclusion and content of the report.

INTERNAL AUDIT – ANNUAL REPORT 2015 - 16

2.0 INTRODUCTION

2.1 This report provides the opinion that, subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

3.0 RECOMMENDATIONS

3.1 The Audit Committee notes the content of this report.

4.0 DETAIL

4.1 FOREWORD

The annual audit plan for 2015/16 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS).

4.2 SERVICE OUTCOME

Assurance is provided that financial and management controls are operating effectively.

4.3 TERMS OF REFERENCE

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces line management's responsibility for effective internal controls. Internal Audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

4.4 REPORTING RESPONSIBILITIES

The reporting responsibilities of Internal Audit are:

Section 95 Officer / Head of Strategic Finance

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer. The Chief Internal Auditor meets with the Head of Strategic Finance to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

Chief Executive

Internal Audit has a dotted line responsibility to the Chief Executive. The Chief Internal Auditor met regularly with the Chief Executive, covering progress of the annual audit plan, issued reports and areas of concern.

Audit Chairman

Internal Audit has a dotted line responsibility to the Audit Chairman.

Audit Committee

Internal Audit prepares and facilitates reports for the Audit Committee and during 2015/16; the following report areas were presented:

Internal Audit Annual Plan	Internal Audit Reports
Annual Risk Management report	Internal Audit Summary Activity
National Fraud Initiative Exercise	Internal Audit Follow up report.

External Audit

It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2015/16 Audit Scotland sought to place reliance on the following areas of internal audit work:

Non Domestic Rates	Trade Receivables
Council Tax	Financial Ledger
Payroll	Treasury Management
Trade Payables and Purchasing	Capital Accounting

Under the Code of Audit Practice, External Audit will also place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

Auditee

Internal Audit in 2015/16 maintained contact with Executive Directors and Heads of Service individually and through Departmental Management Teams (DMTs) and the Strategic Management Team (SMT), throughout the financial year.

Internal Audit provided management with an independent and objective opinion on their controls and risks, recommending changes where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2015/16, Internal Audit approach and reporting formats were in line with PSIAS good practice.

4.5 PROFESSIONAL STANDARDS

The Internal Audit Team service is compliant with Public Sector Internal Audit Standards.

During the year compliance with PSIAS was the focus of many elements of Internal Audit work including:

- Ensuring revised practice was fully implemented
- Maintaining an Internal Audit Manual.
- Continuous review of audit approach, auditee engagement, stage tracker design and content of reporting

4.6 AUDIT PLAN 2015/16

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a draft annual audit plan for 2015/16 was presented to the Audit Committee in December 2014; and a final plan approved in March 2015. The plan was compiled from an analysis covering four key headings as set out in the table below.

1.	Materiality – An assessment of financial data;
2.	Risk – Assessment of operational, strategic and reputational damage;
3.	Control Effectiveness - Assessing external and internal reviews and reports;
4.	Performance Management – Assessing corporate, service and improvement plans.

The output from the analysis exercise was discussed individually with the Chief Executive, Executive Directors and Head of Strategic Finance. Thereafter a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendation implementation and national fraud initiative work.

The Audit Plan was completed subject to the following exceptions,

- Asset Management: Super-ceded by Audit Scotland Best Value review
- Resource Allocation System: Removed due to use of

- system being discontinued April 2016.
- Piers and Harbours: Delayed subject to on-going legal activity.

4.7 GOVERNANCE & INTERNAL CONTROL STATEMENT 2015/16

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place appropriate management and reporting arrangements. The role of Internal Audit is to provide assurance that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

Internal Audit reviews the results of its own audits and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared by Head of Services and Executive Directors.

Internal Audit via its Strategic Partners, Grant Thornton commissioned a review of the Governance statement preparation process in response to previous year external Audit comments and have incorporated a number of improvements.

4.8 **Resource Allocation 2015/16**

The 2015/16 audit plan was based on five full time posts. I am pleased to report that Internal Audit service successfully recruited a Trainee Auditor during the year. Specialist support was available via our Strategic Partners, Grant Thornton. The number of available Audit days was impacted due to long term sickness absence.

In addition to planned Audit activity, special investigation, recommendation implementation reporting and national fraud work was also undertaken.

Audit Opinion

Based on audit work carried out in 2015/16 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by Internal Audit has indicated that the systems for governance are operating effectively, and a draft Joint Governance and Internal Control Statement has been produced. The draft statement has been presented to the Strategic Management Team (SMT) and will be presented to Audit Committee for approval. With specific regard to internal control, I am satisfied that recommendations made have been or are currently being being addressed by management, and my opinion on the Council's systems is based on those

recommendations being satisfactorily implemented.

The Annual Audit Plan for 2015/16 was subject to a slight over-run into April however is fully completed subject to the exception mentioned above.

The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit and the Audit Committee is asked to accept the same assurance, based on the audit work completed in 2015/16.

4.9 ANALYSIS OF 2015/16

Details of the Audit completed together with Assurance level and number of recommendations is shown in Appendix 1. In Addition to the Audit plan the undernoted activity also took place:

- Continuous Monitoring Programme was rolled out with transactional type testing undertaken on a regular basis. Reporting is by exception and there are no outstanding action points.
- Quarterly reports were prepared for the Audit Committee advising of progress with the Annual Audit Plan and Quarter Activity;
- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2015/16 Internal Audit held regular meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- Analysis of returned client questionnaires in 2015/16 indicates that an average approval score of 4.5 was achieved by Internal Audit. The target for the section is to achieve 4 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 5.
- The partnership with Grant Thornton and CIPFA has offered specialist support and advice where required. Grant Thornton undertook specific work in relation to Assurance Mapping and Risk Management as well as providing risk control refresher training to the Internal Audit Team.

4.10 INTERNAL AUDIT PERFORMANCE

Internal Audit performance was satisfactory and performance indicators were on track throughout the year. The Audit Plan was subject to a slight over-run into April however was fully completed. The year-end outturn position was within budget with a small underspend of £1,500

4.11 OVERVIEW

It has been a challenging year for Internal Audit with regards managing available resource and ensuring the timely completion of the Audit plan. It is my opinion the profile of Internal Audit continues to improve within the Council and there is a consistency in quality of reports prepared. Improvements require to be made in respect of timely client engagement and measures have been introduced to improve this aspect. Management and External Audit continue to place positive reliance on the work of Internal Audit. Positive developments have also been made in respect of improving links between Audit and Scrutiny activity.

5.0 CONCLUSION

5.1 Subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively. The Internal Audit service continues to develop and improve.

6.0 IMPLICATIONS

- 6.1 Policy – None. Report is for noting
- 6.2 Financial – None. Report is for noting
- 6.3 Legal – None. Report is for noting
- 6.4 HR – None. Report is for noting
- 6.5 Equalities– None. Report is for noting
- 6.6 Risk– None. Report is for noting
- 6.7 Customer Service– None. Report is for noting

Kevin Anderson
Chief Internal Auditor
17 June 2016

For further information contact:
Kevin Anderson, Chief Internal Auditor 01369 708505

APPENDICES

- 1. AUDITS COMPLETED DURING 2015/16

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APPENDIX 1 – AUDITS COMPLETED DURING 2015/16

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
Single Outcome Agreement	Substantial	6	1
Health & Social Care Integration	Substantial	1	1
Risk Management	Substantial	2	0
Performance Management	Substantial	8	1
Welfare Reform	High	0	0
Procurement – PECOS	Limited	11	1
Tendering	Substantial	6	2
School Transport	Substantial	4	2
Catering – School Meals	Substantial	2	0
HR – Training	Limited	9	0
Health & Safety	Substantial	5	0
Taxi Licensing	Substantial	2	0
School Hostels	Substantial	9	4
Early Years	Substantial	5	1
Out of Authority Placements	Substantial	5	0
Homelessness	High	0	0
SQA submissions	Substantial	3	0
Exclusions & Truancy	Substantial	2	0
Looked after Children	Substantial	4	0
Economic Development Action Plans (EDAPS)	Substantial	4	0
Town Heritage Initiative (THI)	Substantial	2	0
Capital Projects – Design Protocols	Limited	3	1
Roads Maintenance	Limited	8	2
Planning – Enforcement retrospective permissions	Substantial	2	0
Leader	High	0	0
Flag	High	0	0

Airports	Substantial	4	1
LGBF	High	0	0
Disposal Policy	Substantial	10	1
Electronic Signatures	n/a	4	0

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

17 JUNE 2016

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

- 1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 1.
- 1.2 Core activities together with a progress update statement are shown below.
- **16/17 Audit Plan progress:** The Audit plan is currently on track.
 - **Individual Audits undertaken:** 9 audits have been completed during the period. Of these Audits, one is rated as Limited and one is rated as No Assurance.
 - **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Reporting is by exception. Management have responded to previous quarter notifications and there are no outstanding issues. A No Assurance opinion is showing against one area in relation to stock control procedures at an Integrated Equipment store.
 - **Development Plan:** One action point relating to the roll-out of Sharepoint has been rescheduled due to resourcing issues.
 - **Performance indicators:** Current status is green / on track.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

17 JUNE 2016

INTERNAL AUDIT SUMMARY OF ACTIVITIES**2. INTRODUCTION**

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 1 against a number of areas;

- 16/17 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- Internal Audit Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 The Audit Committee is asked to note the content of the report.

4. DETAIL

4.1 The 15/16 Audit Plan was completed subject to the undernoted exceptions.

- Asset Management: Superseded by Audit Scotland Best Value review
- Resource Allocation System: Removed due to use of system being discontinued April 2016.
- Piers and Harbours: Delayed pending on-going legal activity.

4.2 Audits completed to May are detailed in Table 1. At the time of writing there are two Quarter 1 Audits which are in progress and which will be reported to the September meeting of the Committee. These are Oban Airport and Debt Recovery / Write-off Procedures.

Table 1: Summary of Audits performed in Quarter 1 2016/17:

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
2015/16			
Townscape Heritage Initiative	Substantial	2	0
Capital Contracts	Limited	3	1
Disposal of Equipment	Substantial	10	1
2016/17			
Homecare Contract Compliance	Substantial	3	0

Freedom of Information	Substantial	3	1
Criminal Justice	Substantial	2	0
Project Certification	Substantial	2	1
Parking at Council Buildings	No Assurance	1	1
Housing and Repair Grants	Substantial	4	0

4.3 Audits planned for the Quarter 2 16/17 are shown in the table below.

Quarter 2
Strategic Finance
Hub North Project Financing
Childrens Units
Leader and Flag
Local Government Benchmarking Framework
Procurement Off-contract Purchasing
Adult Care Charging Waivers
Resource-Link
Pool Cars

4.4 Internal Audit has received two requests from services to undertake additional compliance testing. The first is assisting Health and Safety staff with an internal assessment exercise in relation to Moving and Handling policies and procedures. The other request is in relation to compliance testing in respect of Keeper of Records requirement. This work will be scheduled into our programme via contingency days.

4.5 A number of areas which were previously subject to individual audits now form part of our continuous monitoring programme. These areas are tested on a regular basis and detailed reporting will be by exception to Audit Committee. Standard audit tests are applied relevant to each auditable unit. A follow up process is in place whereby management are advised of findings and where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 2 below summarises activity to date outlining issues arising and provides a level of assurance together with follow up detail.

Table 2: Continuous monitoring programme results:

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
Payroll and Overtime	<ul style="list-style-type: none"> • Excessive & Regular Overtime • Ghost Employees • Duplicate Employees 	<ul style="list-style-type: none"> • Excessive overtime payments • None • None 	Substantial	Management are currently reviewing findings.
Capital Accounting	<ul style="list-style-type: none"> • Capital Project process 	<ul style="list-style-type: none"> • Business case are not 	Reasonable	The issues are being

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
	<ul style="list-style-type: none"> • Training/ guidance for elected members 	<p>monitored/ reviewed throughout the life of the project.</p> <ul style="list-style-type: none"> • Capital planning & investment training is included within member induction programme however there is no detailed training offered. 		<p>considered by the Strategic Asset Management Board who will agree any action to be taken.</p>
General Ledger, Debtors & Creditors	<ul style="list-style-type: none"> • Computer files are regularly and sufficiently backed up. Back up files are held remotely in a secure location. 	<ul style="list-style-type: none"> • None 	Substantial	N/A
Establishment Visit	<ul style="list-style-type: none"> • Customer Service Centre – Oban 	<ul style="list-style-type: none"> • Facility Responsible Person's contact information was not displayed as per Health and Safety requirements. Information was not prominently displayed in the facility. 	Reasonable	<p>Notice will be moved to prominent location and has been updated to show current details.</p>
Colgrain Primary School	<ul style="list-style-type: none"> • Supporting documentation for expenditure • Analysis of Trip Accounts 	<ul style="list-style-type: none"> • No evidence of detailed analysis of trip accounts. 	Limited	<p>Management to introduce detailed financial analysis of all trips.</p>
Kilcreggan Primary School	<ul style="list-style-type: none"> • Compliance with circular 1.10 	<ul style="list-style-type: none"> • No reconciliation between monies received from school uniforms and 	Reasonable	<p>Process will be reviewed and reconciliation undertaken.</p>

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
Rosneath Primary School	Compliance with circular 1.10	<p>income received</p> <ul style="list-style-type: none"> Bank reconciliation has not been carried out for last 10 months 	Limited	Management to ensure reconciliation carried out.
Imprest	<ul style="list-style-type: none"> Customer Service Centre – Oban 	<ul style="list-style-type: none"> It was noted that claim forms being used are outdated. It was noted that there is no spare key available for the imprest tin. 	Substantial	<p>Management to request a copy of current form from Creditors.</p> <p>Management will arrange for a spare key.</p>
Creditors	<ul style="list-style-type: none"> Authorisation of batch invoice payments Duplicate invoices Review of administration and use of Imprest accounts 	<ul style="list-style-type: none"> Invoice was not appropriately authorised in accordance with agreed limits None On-going 	Substantial	Staff reminded of authorisation protocols, including limits.
General Ledger	<ul style="list-style-type: none"> Creation and posting of journals demonstrate segregation of duties 	<ul style="list-style-type: none"> None 	Substantial	N/A
Stock Take-Integrated Equipment Store Helensburgh	<ul style="list-style-type: none"> Comparison of ledger balances back to physical count 	<ul style="list-style-type: none"> There was a 45% discrepancy between stock sample and ledger balance 	No assurance	Monthly checks to ensure accurate recording of stock.
Marine Services Audit – Follow up	<ul style="list-style-type: none"> Marine Services management actions that had previously been signed off as 	<ul style="list-style-type: none"> Assigned PPE was not fully worn by ferry operatives as 		ASP (Ferry managers) have raised these issues with the crew

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
	complete were tested for ongoing compliance.	<p>per guidelines issued.</p> <ul style="list-style-type: none"> • Ropes were not attached to slipway upon embarkation and disembarkation of passengers, the rope was held taught by one of the ferry operators. • No tickets were available in hut as per signage. Ferry operative advised that tickets should be purchased on vessel; where operative accepted cash without issuing tickets. • There was no record of handover of cashbox. 		<p>and discussions are on-going.</p> <p>Management to contact relevant staff to rectify problem.</p>

4.6 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified but the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The Council is currently on track with NFI upload timetable and where matches have been released these are being reviewed. A report is scheduled to be published in June which provides a national overview of the NFI activity /success.

4.7 This section highlights progress made against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. An additional action has been added in respect of self-assessment activity.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Training and CPD	Formalise our plans for internal audit training, including continuing professional development (CPD)	On Track: Strategic Finance service have recently been awarded Employer Accreditation (CIPFA)	On-going
Audit Plan Preparation	2017/18 Draft Plan submitted to December Audit Committee	On track	December 2016
SharePoint site	Roll – out stakeholder system view	Rescheduled to due available resource.	Rescheduled December 2016
PSIAS – Internal Self-Assessment	IA team to review process and guidance documentation in preparation for External review	On Track	February 2017

4.8 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2015 – 16 FQ 4 15/16			
TEAM RESOURCES			
PRDs IA Team G →	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	3	3	
Financial			
Revenue Finance	BUDGET	ACTUAL	G →
Year end Outturn	£252,437	£250,937	

SF02 Assurance...that financial and management controls are operating effectively			
Audit risk assessment prepared by 31 January	Status	Complete	G ↑
	Target	Complete	
Annual Audit Plan	Status	Complete	G ↑
	Target	Complete	
Annual audit plan approved by 31 March	Status	Complete	G ↑
	Target	Complete	
% of audit recommendations accepted	Actual	100%	G →
	Target	100%	
	Benchmark	100%	
% Recommendations followed up	Actual	100%	G →
	Target	100%	
	Benchmark		
Percentage qualified staff	Actual	50%	R →
	Target	60%	
	Benchmark		
% satisfaction rates from post audit surveys	Actual	90%	G ↓
	Target	80%	
	Benchmark		
% customer satisfaction with audit reports	Actual	95%	G ↑
	Target	80%	
	Benchmark		
Internal Audit Training hours	Actual	77.5 days	G ↑
	Target	71 days	
	Benchmark		

5. CONCLUSION

5.1 The 16/17 Audit Plan is on track. Continuous monitoring testing has provided an overall substantial level of assurance.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

**Kevin Anderson,
Chief Internal Auditor
17 June 2016**

For further information contact:

Kevin Anderson, Chief Internal Auditor (01369 708505)

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ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

17 JUNE 2016

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2016 - 2017

1. EXECUTIVE SUMMARY

- 1.1 There are 9 audits being reported to the Audit Committee.
- 1.2 Internal Audit provides a level of assurance upon completion of audit work, this is evaluated as follows:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

- 1.3 The attached reports contain the action plans which detail those recommendations where Internal Audit, in agreement with management, has classified the findings either high or medium. Recommendations classified as low have been removed.

1.4 A high level summary of each report is noted below:

- **Capital Projects – Design Protocols:** This audit provided a limited level of assurance. The audit focused on the consultation protocols in place with 3rd parties such as Communities, Utility companies and the Police in regard to both Road and Bridge strengthening projects. Whilst 3rd party consultation was evidenced as having taken place, weaknesses were identified in that there were no formal consultation protocols available for both Roads and Bridge strengthening. In addition there was an absence of a concise audit trail where consultation had taken place.
- **Disposal of Equipment:** This audit has provided a substantial level of assurance. The audit focused on compliance with the Council's Financial and Security Regulations and the practical application of policies and procedures. Site visits were undertaken and a sample of obsolete plant, vehicles, furniture and equipment with a value of less than £10,000 was tested. Clearer guidance is required in the form of an overarching policy and procedures at local level to aid compliance with relevant legislative requirements and to provide best value to the Council.
- **Townscape Heritage Initiative:** This audit has provided a substantial level of assurance. The audit focused on project compliance, delivery of outcome, including controls in place to monitor progress, monitor compliance and the governance arrangements in place including financial controls. Adequate accounting procedures and records are in place in respect of the HLF grant claims and progress report submissions. This includes supporting evidence in terms of invoices for eligible spend. Some weaknesses were found in relation to regularity of interaction with Strategic Finance and availability of financial information within Committee reports.
- **Criminal Justice:** This audit provided a substantial level of assurance. A partnership is in place with East and West Dunbartonshire to form the Argyll, Bute and Dunbartonshire's Criminal Justice Partnership. Adequate governance performance and financial reporting arrangements are in place. Minor areas of weakness were identified in relation to timely reporting and documented internal procedures.
- **Freedom of Information:** This audit has provided a substantial level of assurance. The audit focused on key controls to capture and respond to Freedom of Information requests across all departments as per timeframe and legislative requirements. General control areas and systems are in place with documented procedures and clearly defined roles and responsibilities. The year on year compliance rate is approximately 93%. Although not a system weakness, a residual risk was identified in respect of performance with one service consistently below average response rates.
- **Homecare Contract Compliance:** This audit provided a substantial level of assurance. The audit focused on agreed contractual arrangements with external providers with particular focus on the monitoring and controls in place. Procurement and Commissioning team have procedures in place for both the monitoring of external contracts and reporting thereof. Weaknesses were identified in regard to regular reviewing of procedures and incomplete record keeping.

- **Housing and Repair Grants:** This audit has provided a substantial level of assurance. The focus of the audit was to assess controls in place throughout the private sector housing grant process and ensure that adequate evidence of expenditure is provided. There are procedures in place to aid compliance with legislative requirements. Appropriate records management practices are in place although notes fields on the ABRITAS system require to be updated to evidence inspection work undertaken.
- **Staff Parking Permits:** This audit has provided a no assurance level. The audit focused on the issue/use of staff parking permits and compliance with any available policies and procedures. Free parking is available at most Council locations with one exception, being Albany St, Oban. Parking permits are generally issued to staff where there is a business requirement. Weaknesses found include segregation of duties, availability of any documented procedures, no evidence of control restrictions regarding the number of permits that can be issued and no evidence of business justification in respect of permits issued. There was also no evidence of management authorisation together with the absence of any documentation/audit trail for some permits issued.
- **Project Certification:** This audit provided a substantial level of assurance. The main objective of the audit was to review key arrangements for project certification including retention of documentation and record keeping in respect of SPT projects. Adequate arrangements are in place with regular interaction and reporting between key stakeholders. Minor weaknesses identified in relation to authorisation protocols and the availability of documented workflows or processes.

2. RECOMMENDATIONS

- 2.1 Audit Committee note the content of this summary report and detail within each individual report.

3. CONCLUSION

- 3.1 Management has accepted each of the reports submitted and have agreed responses and timescales in the respective action plans.

4. IMPLICATIONS

- 4.1 Policy - None
- 4.2 Financial - None
- 4.3 Legal - None
- 4.4 HR - None
- 4.5 Equalities - None
- 4.6 Risk - None

4.7 Customer Service – None

Kevin Anderson, Chief Internal Auditor

17 June 2016

**For further information contact: Kevin Anderson, Chief Internal Auditor
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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Capital Projects – Design Protocols
AUDIT DATE	March 2016

2015/2016



1. BACKGROUND

A review of Capital Design Protocol within Development and Infrastructure (Roads and Amenity) has been planned as part of the 2015/16 Internal Audit programme.

Included within the Roads and Amenity capital programme are a range of projects which require consultation with outside bodies such as Utility Companies, Police Scotland, Fire Brigade and Local Community groups prior to project start to ensure that projects, where possible, are designed in order to achieve best value. In addition, liaison with other Council Departments may also be required; such as the School Transport service where the Roads and Amenity Service is planning works which affect availability /access to a school route.

Two areas have been identified for review, being Road works and Bridge strengthening projects. The Roads construction the capital budget for 2015/16 is £3.52 m with a revenue roads budget of £3.9m. The 2015/16 budget for Bridge strengthening is £400k.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit were:

- Review formal design protocols including project initiation processes /communication plans.
- Review a sample of Road and Bridge projects to evidence engagement with key stakeholders including public consultation.

Control objectives included:

Authority –	Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice.
Occurrence –	Sufficient documentation exists to evidence compliance with policies, procedures.
Completeness –	Policies and procedures are aligned and required documentation is fully maintained.
Measurement –	Policies and procedures are in line with requirements.
Timeliness –	Policies and procedures are regularly reviewed and updated as necessary.
Regularity –	Documentation is complete, accurate and not excessive;it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Design protocols (Communications) are not in place.
- Reputational damage to the Council.
- Inconsistent use/presentation of information.

4. AUDIT OPINION

The level of assurance given for this report is Limited.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review formal design protocols including project initiation processes /communication plans

- There was no evidence of any formal design protocols being in place, for either Roads projects or Bridge strengthening projects, which set out the processes that should be followed to ensure that all relevant external and internal bodies have been consulted prior to project start.

Review a sample of Road and Bridge projects to evidence engagement with key stakeholders including public consultation

Road Projects

- A sample of 6 road's projects was chosen covering each of the areas.
- It was noted that Roads Design previously had an accredited quality assurance system in place that complied with ISO 9001 which included documentation that was relevant to consultation with both external and internal bodies. The service no longer work towards accreditation.

- It was evidenced from the sample chosen that there has been consultation with both Internal and external bodies. With regard to Roads projects within the Helensburgh and Lomond area on the A814 it was evidenced that documentation had been completed covering the following :
 - Proposal form outlining the type of traffic restriction and requiring comments from police to be completed.
 - Consultation form that records all of the bodies that have been consulted, the date consultation had taken place and the comments from the bodies consulted.
 - A checklist that details all of the steps that Roads should have undertaken to ensure that all relevant external and internal bodies have been consulted.
 - A form listing any objections to the proposed road changes with objector contact details.
 - A document stating that all documentation pertinent to the roads project has been made available to the public for inspection and the dates thereof.

- However as regards all other areas sampled, evidence of consultation was only available via e-mails and covered the following:
 - Communication with businesses
 - Communication with utility companies
 - Communication with relevant councillors
 - Communication with police
 - Communication with affected homeowners
 - Details of meetings within the community
 - Communication with School Transport

- Control weaknesses were identified with regards to consistency of documentation as there was no standard checklist available regarding consultation, as would had been the case when the department was ISO accredited. Further control weaknesses were identified in relation to occurrence in that there was also no obvious audit trail regarding consultation as it took some time

for service personnel to locate the relevant e-mails. It was noted there was no single file or point of reference for individual projects.

- It was evidenced that all Roads projects included in the sample have been updated on the Scottish Roads works register website as required by legislation. The register facilitates the planning and coordination of road works in Scotland and is accessible to all interested parties.
- It was evidenced from the minutes that formal meetings have taken place attended by Council management and Council members, Police Scotland and Bear Scotland where discussions concerning communication and Consultation processes with interested parties in relation to Road construction programmes. The minutes also addressed areas where best value could be achieved with Bear Scotland in relation to joint collaboration in Road's improvement programmes.

Bridge Strengthening

- A sample of 6 bridge strengthening projects proposed to be carried out in 2015/16 was chosen. It was evidenced that a risk assessment has been carried for all projects and that all of the projects sampled had been classified as high risk which would potentially require consultation with both internal and external bodies as set out in the risk assessment matrix.
- There was no evidence of any documentation having been completed that recorded whether consultation with either external/internal bodies had been considered. Of the 6 projects assessed it was stated by management that only one of the projects involved consultation with an external body but this was carried out via a telephone conversation so could not be formally evidenced.

6. CONCLUSION

This audit has provided a Limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There was 1 high and 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Roads and Amenities staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Design Protocols		High/ Medium or Low		
There was no evidence of any formal design protocols being place for either Roads projects or Bridge strengthening projects.	Failure to have Design protocols that outline processes to be followed with regards to consultation with other bodies can lead to failures in service delivery resulting in reputational damage to the Council/failure to achieve best value	High	Develop consultation guidelines for Capital projects. This will include identification of key stakeholders and responsibilities regarding communication. Create plan to inform/train staff as appropriate.	Network & Standards Manager 31 December 2016
2. Documentation		High/ Medium or Low		
Inconsistencies in recording of consultation documentation.	Failure to have a consistent method of recording information may leads to ineffective decisions leading to legal /financial and reputational damage.	Medium	Develop appropriate document storage for capital project consultations, taking into account the requirements of the Information Asset Register.	Network & Standards Manager 31 December 2016

3. Audit Trail		High/ Medium or Low		
There was a lack of an audit trail for evidencing consultation with External/Internal bodies	Failure to have a clear audit trail to evidence compliance can lead to loss of information resulting in reputational damage	Medium	Develop checklist to ensure all stakeholders consulted with appropriately, and evidence all communication, in accordance with the consultation guidelines for capital projects.	Network & Standards Manager 31 December 2016



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVE'S UNIT
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF DISPOSAL OF EQUIPMENT <£10,000
AUDIT DATE	MARCH 2016

2015/2016



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Disposal of Equipment with a value of £10k or less across the Council as part of the 2015/16 Internal Audit programme.

The Council Constitution - Financial Regulations states that;

5.6 – Redundant and surplus stocks and items of equipment will be disposed of by competitive tender under arrangements approved by the Head of Strategic Finance, except where the Executive Director concerned is of the opinion that the income likely to accrue from the disposal is less than £10,000, in which case the Executive Director concerned may dispose of the surplus so as to ensure that any reasonable value may be realised.

5.12 – All vehicles surplus to the requirements of the Council will be disposed of by competitive tender under arrangements approved by the Executive Director - Development and Infrastructure Services.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to review policies and procedures in place and their practical application.

A sample of obsolete plant, vehicles, furniture & equipment, with a value of £10k or less, were tested. Internal Audit undertook site visits as required.

3. RISKS CONSIDERED

Failure to maximise income opportunities

Failure to utilise existing Council resources

Incurring of unnecessary disposal/storage costs

Increased risk of mis-appropriation

Failure to comply with Council Constitution

Failure to comply with legislation (WEEE & Data protection)

4. AUDIT OPINION

The overall level of assurance given for this report is Substantial, however there a number of elements of residual risk which are above an acceptable level and require to be addressed within a reasonable timescale.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Council Constitution

As detailed above, the Council has an overarching policy in place within the constitution that places responsibility for disposal of assets, with a residual value of 10k or less, under the remit of the relevant Executive Director. This policy is very general and does not provide clear guidance to management and staff.

Recommendation

This overarching policy should be further developed and defined to give clearer guidance to management and staff when disposing of assets in order to comply with relevant legislation and achieve best value for the Council.

ICT Equipment

The ICT section, within Customer & Support Services, is required to comply with the Data Protection Act and Waste Electrical and Electronic Equipment (WEEE) regulations when they dispose of equipment. Following a tendering exercise in 2013, ICT have a 3 year contract with Arrow Value Recovery UK LTD (formerly Flection) to uplift obsolete Corporate and Education ICT equipment and dispose of, or resell, this equipment in line with legislation. Certificates of data removal and destruction are provided to evidence this. Any income generated from sale of assets is credited to the Council against the charge for uplift/disposal; the resale value depends on current market, age and condition of equipment. Income received is used to fund ICT modern apprenticeship posts and training. Disposal certificates were not readily available and roles and responsibilities were not clearly defined.

Recommendation

In accordance with contractual arrangements for disposal of assets, robust procedures and processes are in place; however consideration should be given to the development of lower level procedures to cover areas such as record keeping and roles and responsibilities.

Office/School Furniture & Equipment

An informal process is in place where disposal of obsolete office and school furniture and equipment is delegated to individual services and in the case of Schools, individual Head teachers. Surpluses are first informally offered for use elsewhere within the Council and then to the 3rd sector. Disposal takes place only when all other options have been exhausted. It was noted that there is an increased surplus of furniture and equipment following recent rationalisation programmes. Surplus furniture is often retained in situ until of use elsewhere, however some items have been retained for many years and are deteriorating in condition. There is currently a proposal for a centralised furniture and stationery ordering process that would further promote the recycling and re-use of existing resources.

A submission has been put before the Policy and Resources Committee on 17 March 2016 which outlines the protocol to be followed regarding the disposal of civic furniture and memorabilia which are surplus to requirements.

Recommendation

The informal protocol in place to recycle old office/school equipment follows good practice and storage costs are kept to a minimum by retaining furniture within unused council buildings. However it would be of benefit to have documented policies and procedures in place to formally outline the disposal process.

Roads Stores

Internal Audit visited Lochgilphead Roads Store and were advised that there is neither an agreed process nor documented procedures in place to remove obsolete items from the Roads Store. Only drainage materials are recorded as stock items, all other items are procured for specific jobs and are charged as such at point of purchase, and therefore, not reflected as stock items. Any surplus from jobs is retained to facilitate future repair work although some materials have remained within the Roads store for several

years with little movement. There is a large quantity of obsolete road signs and some other items that may have a small re-sale/scrap value.

Recommendation

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

Lighting Stores

Internal Audit visited Lochgilphead lighting store and were advised that items had been held in stock for over 10 years without any movement. Staff are unaware of any procedures for removal of obsolete stock and therefore stock is retained indefinitely. Any stock that is no longer of use at one store is transferred to another where they can be of use. It was noted on the site visit that there are 2 large containers of used street lighting bulbs which need to be disposed of professionally due to gas content, however following a change of contractor there is no longer an arrangement in place to uplift and dispose of the bulbs upon receipt of new delivery. It was also noted that the storage container for street lighting bulbs was accessed using the only key that is kept under the access ramp in front of the door.

Recommendation

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

Recommendation

Management should review arrangements for storage and disposal of used light bulbs containing gas as a matter of urgency, as these obsolete bulbs pose a health & safety risk.

Recommendation

Management should review arrangements for access to container for street lighting bulbs to ensure secure access.

Horticultural Stores

Internal Audit visited Lochgilphead horticultural store and were advised that when equipment is no longer functional it is stripped and used for parts for operational equipment. When all useable parts have been removed, equipment is retained on site until uplifted. Internal Audit has been advised that there has been no uplift to date.

Recommendation

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

Fleet Management

All fleet vehicles are recorded on Tranman application, including purchase dates, costs, maintenance, and disposal information. Fleet management follow a process for disposal of fleet vehicles/equipment when they reach the end of their useful life. Fleet vehicles that are no longer operational are used as donors for parts for other vehicles of the same and then when all useful parts are exhausted vehicles are put to market/auction.

Recommendation

Fleet management follow a robust process when disposing of assets however whilst there are comprehensive system notes in place the process should be documented in a procedure note.

6. CONCLUSION

This audit has provided an overall Substantial level of assurance, however there a number of elements of residual risk which are above an acceptable level and require to be addressed within a reasonable timescale. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There was 1 high and 7 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are 2 low recommendations which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the

recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to all staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Disposals of used light bulbs – Street lighting stores		High/ Medium or Low		
It was noted on the street lighting store visit that there are 2 large containers of used street lighting bulbs which need to be disposed of professionally due to gas content, however following a change of contractor there is no longer an arrangement in place to uplift and dispose of the bulbs, upon receipt of new delivery	Failure to safely store and dispose of used light bulbs may lead to non-compliance with WEEE legislation and staff/public injury resulting in reputational and/or financial damage.	High	Management will review arrangements for storage and disposal of used light bulbs containing gas as a matter of urgency, as these obsolete bulbs pose a health & safety risk.	Head of Roads and Amenity Services 30 September 2016
2. Council Constitution – Disposal arrangements		High/ Medium or Low		
The current overarching policy is very general and does not provide clear guidance to management and staff.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective	Medium	The overarching policy will be further developed and defined to give clearer guidance to management and staff	Head of Governance and Law 30 September 2016

	operations resulting in non-compliance with current agreed practice.		when disposing of assets in order to comply with relevant legislation and achieve best value for the Council.	
3. Disposal of Office Furniture/Equipment		High/ Medium or Low		
There is an informal protocol in place when disposing of obsolete office furniture and equipment, however this is not documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with current agreed practice.	Medium	Documented policies and procedures will be put in place to formally outline the disposal process.	Head of Customer and Support Services 31 July 2016
4. Disposal of School Furniture/Equipment		High/ Medium or Low		
There is an informal protocol in place when disposing of obsolete school furniture and equipment, however this is not documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with current agreed practice.	Medium	Documented policies and procedures will be put in place to formally outline the disposal process.	Head of Customer and Support Services 31 July 2016

5. Disposals – Road Stores		High/ Medium or Low		
Staff are unaware of any procedures for removal of obsolete items and therefore retained indefinitely.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	Head of Roads and Amenity Services 30 September 2016
6. Disposals – Lighting Stores		High/ Medium or Low		
Staff are unaware of any procedures for removal of obsolete stock and therefore stock is retained indefinitely.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	Head of Roads and Amenity Services 30 September 2016

7. Key Security – Lighting Stores		High/ Medium or Low		
The storage container for street lighting bulbs was accessed using the only key that is kept under the access ramp in front of the door.	Failure to secure items in a safe environment may lead to theft resulting in financial loss.	Medium	Management will review arrangements for access to container for street lighting bulbs with a view to ensuring secure access.	Head of Roads and Amenity Services 30 September 2016
8. Disposals – Horticultural Stores		High/ Medium or Low		
When equipment is no longer functional, and has been stripped of all useful parts, it is retained on site for uplift/disposal. There has been no uplift to date. This process is not formally documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	Head of Roads and Amenity Services 30 September 2016



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Townscape Heritage Initiative
AUDIT DATE	February 2016

2015/2016



1. BACKGROUND

This report has been prepared as a result of an Internal Audit review of Townscape Heritage Initiative within Economic Development & Strategic Transportation as part of the 2015/2016 Internal Audit programme.

There are multiple heritage led regeneration projects which have taken place or are currently being carried out in Argyll and Bute. These schemes improve the built and visual qualities of an area which in turn help improve social and economic prospects. Works undertaken as part of these schemes involve the use and promotion of heritage skills. The use of traditional skills helps to ensure that repairs are long lasting, that local skills are developed and that the quality of place is maintained and improved.

A Townscape Heritage Initiative is funded by the Heritage Lottery Fund and runs for a specific period of time (usually about 5 years). The initial Heritage Lottery Funding is often then added to by other bodies such as the Local Authority for the area and Historic Scotland. The funds can be applied for by owners of properties within the designated area and these grants will be allocated. Two schemes were reviewed, Rothesay and Campbeltown.

Rothesay

The Rothesay Townscape Heritage Initiative is a 5-year project which seeks to revitalise a defined core area within Rothesay's historic town centre. Grants have been offered to property owners to assist with structural and external repairs to bring their properties back to a good state of repair.

The project is funded by the Heritage Lottery Fund (£1.5m), Historic Scotland (£0.5m), Argyll & Bute Council (£0.54m) and LEADER (£108k). In addition to this £2.6m of public funding, private investment amounts to £1.38m, meaning a total investment in the island's gateway of approximately £4m over a five year period. All grants have been allocated and the project will draw to a close on 31st March 2016.

Campbeltown

Campbeltown THI is a heritage led regeneration project with an initial budget of £1.6M funded by Heritage Lottery Fund (£0.7m), Historic Scotland (£0.22m), Argyll & Bute Council (£0.50m), HIE (£77k) and LEADER (£115k) . Total grants awarded of £1.4m have

helped secure an additional £5.5m from other funders and owners contributions, resulting in an overall spend of £6.9m in Campbeltown town centre.

The THI also incorporated the Round 1 Campbeltown Conservation Area Regeneration Scheme (CARS) that ended on the 31 March 2012. The main aim is to provide a sustainable economic future for Campbeltown's historic town centre that recognises the value of its built heritage whilst making it a better place to live, work and visit. Funding has been secured for a Round 6 CARS with effect from April 2015. In March 2015 Historic Scotland awarded the council almost £1m to repair key buildings within the town's conservation area which, in addition to funding from the council's regeneration and housing repair budgets as well as private contributions, will see at least £2.2m being spent on buildings in Campbeltown's historic town centre over the next five years.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review project compliance, delivery of outcome, including controls in place to monitor progress, monitor compliance and the governance arrangements in place including financial controls.

Control objectives included:

Authority:	policies and procedures have been established;
Occurrence:	policies, procedures and processes are documented and are readily available;
Completeness:	authorities, roles and responsibilities have been identified, allocated, and communicated to the relevant persons and appropriate training provided;
Measurement:	procedures ensure information is regularly reviewed and updated;
Timeliness:	records are updated regularly;
Regularity:	policies and procedures have been established to protect assets from unauthorised access.

3. RISKS CONSIDERED

- Failure to comply with Grant conditions;
- Failure to adhere to policies and procedures;
- Failure to achieve project outcomes.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>
<p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>

5. FINDINGS

The following findings were generated by the audit:

Project Compliance

- 5.1 Argyll & Bute Council identifies conservation areas by completing Conservation Area Appraisals, including developing a Management Plan identifying areas for improvement. On successful completion of the Heritage Lottery Fund (HLF) grant application process for Townscape Heritage Initiative (THI), funds are awarded for specific projects identified within the application form. The Councils' role is to disperse THI funds via a grant application process. It was evidenced that grant application processes are in place and, as required, applicants complete the standard application form and provide relevant information which is requested on a checklist. It was evidenced that a scoring system is in place for the allocation of funding to ensure that the aims and objectives of the THI are met.
- 5.2 Argyll & Bute Council act as administrators for the projects. Money is drawn down by the Council retrospectively from HLF on a quarterly basis as required by HLF procedures. Grant payment and progress reports are completed; these provide details of agreed completion dates, actual completion date, explanations for variances to completion dates, project finance to date, identified risks and any steps to mitigate identified risks. To date there have been 44 grant payment and progress reports submitted to HLF. All applications for the release of funding have been approved by HLF with no issues identified.
- 5.3 Adequate accounting procedures and records are in place in respect of the HLF grant claims and progress report submissions. This includes supporting evidence in terms of invoices for eligible spend.
- 5.4 It was evidenced that Campbeltown Conservation Area Appraisal and Management Plan was undertaken by an independent company and is available on the Council's website. Rothesay Conservation Area Appraisal and Management Plan is also available on the Council's website.
- 5.5 Claims procedures are documented and are readily available. Grant application checklists have been established. Eligibility flowchart processes have been established. As required by HLF standard grant application forms are in place, including standard grant contract forms. It was evidenced that these are being used as part of the grant process. This includes details of procedures for release of grant, inspection, timescale for works and detailed cost information.

- 5.6 It was evidenced that specifications and outline costs are prepared by an independent company. Independent valuations are undertaken, this informs the conservation calculations for priority projects which the grant percentage is based on. THI grant reports and recommendations to support funding for projects are presented at Area Committees for approval.
- 5.7 Area Committees are required to agree specific project funding distribution. It was evidenced that specific individual project details are provided to Committee for approval, this includes financial details for the project. It was noted that the reports provided to the Area Committee did not include details of the overall budget for THI.
- 5.8 It was evidenced that condition surveys are undertaken of properties eligible to apply for grant funding. Each property is subject to a thorough survey process to inform a schedule of works which has been competitively tendered in each case. The scope of works for each building seeks to bring the property back into a good state of repair whilst significantly improving the streetscape and works are developed in consultation with Argyll & Bute conservation officer. An overview of the scope of works relative to each property is outlined to the Area Committee.
- 5.9 Site visits are undertaken by agents appointed by owners, contractors and THI staff. Standard site visit report sheets are completed by the Agent detailing any observations, actions to be undertaken (including identifying responsible person) and highlighting any delays to project. Site visit reports sheets were available for review.
- 5.10 It was evidenced that the Agent provides interim certificates to the Council for progress payments to be drawn down. The Agent acting on behalf of the owner agrees with the Contractor the value of the work that has been undertaken; this includes the value of the labour and materials. It was evidenced that supporting invoices are available from the Contractor for the value of the work undertaken.

Monitoring of Progress

- 5.11 Five year action plans are drawn up identifying timelines for each project, it was evidenced that these are updated on a regular basis. Action plans are submitted on an annual basis to the Heritage Lottery Fund where they are reviewed by the Heritage Lottery monitor and, if satisfactory, are signed on behalf of the Trustees of the National Heritage Memorial Fund. The submission includes information relating to the list of eligible target properties, performance indicators, proof of partnership funding, a timetable/programme, a cost breakdown (including cash flow), details of the project management structure and

method of choosing consultants, contractors and suppliers. All of the action plans have been approved and agreed each year by the HLF Monitor.

- 5.12 Highlight Reports are completed and submitted to the Development & Infrastructure Departmental Management Team Strategic Board. Additionally, Reports are sent to the Project Manager (CHORD) for inclusion in CHORD reports that are submitted to the Policy & Resources Committee on a quarterly basis. In Campbeltown the CHORD Boards were abolished in 2013/14 and the project is now governed by the MAKI Area Committee. Regular reports were submitted to obtain approval for grants and to provide project updates. A final report will be submitted to MAKI Area Committee after the completion of the THI. Rothesay THI was initially set up to report to a Project Board, but these were superseded by the Area Committees with Highlight reports to Strategic Management Team (SMT).
- 5.13 Detailed timeframe charts were available and progresses to date photographs are available for projects, this includes 'before' and 'after' photographs.

Governance and Reporting

- 5.14 Project team roles and responsibilities for developing and delivering the scheme, including reporting structures are identified as part of the HLF application.
- 5.15 Area committees assume the role of project boards and designated project officers are in place.
- 5.16 Monthly meetings are held between the Projects and Renewables Manager and the Policy Lead for Sustainable Economic Growth (Economic Development, European Affairs, Renewables and Strategic Tourism). Project progress is discussed in detail at this meeting.
- 5.17 Highlight reports are prepared and are available internally. Reports are also taken to area committee on an adhoc basis when funding requires to be approved. However it was noted that reporting at Council level was limited.
- 5.18 There are no specific measures for THI within Pyramid, however, within the CHORD programme scorecards reference is made to THI initiatives within the commentary section.

- 5.19 It was evidenced that comprehensive reporting is in place in respect of returns to HLF.
- 5.20 Budgets are monitored by THI staff for each individual project, including the monitoring of the overall budget awarded for THI. A member of staff was appointed with the specific role of finance. However, it was noted that there is no interface with the Council's formal budget monitoring processes.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There were 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are no low recommendations. Appendix 1 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Development & Infrastructure staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Project Approval		High/ Medium or Low		
It was noted that the reports provided to the Area Committee detailed the finance required for individual projects but did not include details of the overall budget for THI.	Failure to provide key performance information may lead to ineffective decision making.	Medium	Agreed to include the overall budget totals in future reports from April 2016	Projects and Renewables Manager 30 April 2016
2. Budget Monitoring				High/ Medium or Low
There is no interface with Strategic Finance staff in terms of the budget monitoring procedures.	Failure to ensure appropriate budget monitoring procedures are in place leads to ineffective decision making and/or reputational damage.	Medium	Agreed to meet Strategic Finance quarterly on budget monitoring with regard to THI funding from April 2016	Projects and Renewables Manager 30 June 2016



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	SYSTEM BASED AUDIT
AUDIT TITLE	Criminal Justice – National Outcomes and Standards
AUDIT DATE	May 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Criminal Justice within Community Services as part of the 2016/2017 Internal Audit programme.

Scottish local authorities have a legal duty to provide criminal justice social work services. These services are provided within the framework of the Scottish Government's National Outcomes and Standards. Criminal Justice services undertake a range of statutory duties concerned with the assessment and supervision of offenders following a custodial sentence or subject to community sentences. Argyll and Bute Council Criminal Justice Service has offices in Dunoon, Rothesay, Campbeltown, Lochgilphead and Oban. A partnership is in place with East and West Dunbartonshire to form the Argyll, Bute and Dunbartonshire's Criminal Justice Partnership.

National Outcomes and Standards are intended to provide a clear framework of professional accountability, supported by strong governance and leadership, towards the outcomes of community safety, justice and social inclusion.

Criminal Justice Social Work Services contribute specifically to 3 of the National Outcomes:

- We live our lives safe from crime, disorder and danger;
- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others;
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

There are three key outcomes for Criminal Justice Social Work services:

- Community safety and public protection
- The reduction of re-offending
- Social inclusion to support desistance from offending

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review the key governance and reporting arrangements in respect of criminal justice activity and contribution to National Outcomes and Standards.

3. RISKS CONSIDERED

- Inadequate monitoring and reporting arrangements;
- Non-compliance with the reporting requirements for National Outcomes and Standards

4. AUDIT OPINION

The level of assurance given for this report is Substantial assurance.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Governance and Reporting

5.1 Criminal Justice Social Work Services are delivered within a formal partnership arrangement between East Dunbartonshire, West Dunbartonshire and Argyll & Bute Councils. Governance arrangements include responsibility for overall management of the service resting with a partnership manager and a single partnership budget. Governance and reporting arrangements are in place in respect of contributing towards meeting the National Outcomes and Standards. There are a number of agreements and frameworks in place within the partnership as detailed below:

- Partnership Minute of Agreement is in place detailing the responsibilities of each Authority.

- Planning and Performance Improvement Framework. This framework brings together the different planning and evaluation systems in place for Criminal Justice Social Work (CJSW) to create an integrated planning and performance improvement framework for the Argyll, Bute and Dunbartonshires' Criminal Justice Social Work Partnership. The partnership framework demonstrates links to the National Outcomes and the National Single Outcome Agreement. It details the partnership strategy map, including the strategic outcomes and strategic objectives. The partnership strategic objectives demonstrate links to the three outcomes for the CJSW Service.
- Partnership balanced scored card 2014-2017 which links to the objectives in the partnership strategy map sets KPI's to measure success outcomes.
- Performance Improvement Programme 2014-2017. This programme shows the methods that are used by the partnership to deliver performance improvement. These methods inform the balanced scorecard and details the reporting framework with due dates and responsibilities for delivery.
- Partnership Commissioning Strategy.
- Partnership Operational Action Plan 2014-2017.

5.2 It was evidenced that the criminal justice scorecard was available on Pyramid, including revenue budget and actual figure for year end.

5.3 As part of the statutory requirements on Local Authorities, key performance indicators (KPI) are publicly reported on an annual basis. Criminal Justice Social Work no longer has statutory performance indicators, however, these are included as part of the Local Authority's overall KPI. The Council return was available for review.

5.4 A summary document was available highlighting specific areas of criminal justice, however, it did not cover all activities.

Filing and Recording Systems

- 5.5 It was found that all client case records are recorded on Carefirst which is accessible only to authorised staff and is password protected.
- 5.6 The partnership have developed case recording standards providing a framework to ensure records are accurate, clear, concise and in chronological order. Records for every service user and carer who has contact with the service are maintained to a consistent standard. It also highlights roles and responsibilities for case recording. This document was available for review.
- 5.7 The case recording standards detail document retention periods, including archiving procedures.
- 5.9 Where the partnership requires to share data they can do so under Section 29(3) of the DPA98 - prevention and detection of crime - or, indeed, via Scottish Statutory Instrument 417/2000 which notes that if public interest can be demonstrated (e.g. matters of risk) then there is no requirement to advise the data subject that you are sharing their information.

Roles and Responsibilities

- 5.10 Roles and responsibilities have been identified. Staff within the partnership are appointed by member authorities, it was evidenced that an organisational chart was available for the Council.
- 5.11 Accountability is achieved to the member authorities via a Joint Committee with delegated powers, comprising elected members from each authority. The Joint Committee has overall objectives including clear cut lines of financial operational and staffing accountability. The Committee meets 4 times per year. It was found that two Argyll & Bute Councillors are members of the Joint Committee.
- 5.12 It was evidenced that the criminal justice partnership authorities have a joint training plan and a workforce development plan in place. Progress reports are provided to the Joint Committee.

Review

- 5.13 It was found that the partnership undertake case management audits as per the performance improvement programme (a three year rolling programme). These are undertaken twice per year (one case per worker) as an integral part of self-evaluation to audit the quality of case management. The audit process comprises of 3 parts – peer review, management review and an individual performance improvement plan. It was found that a report is produced detailing the number of audits undertaken, including identifying areas of good practice and areas for development. It also highlights any areas of training need.
- 5.14 It was found that a performance improvement plan is developed resulting from the case management audits.

Reporting Timeframes

- 5.15 It was found that reporting timeframes for the partnership were not always met. It was noted that a report to the partnership due in August 2015 was submitted in May 2016 as a result of resourcing issues within criminal justice.

Financial Review

- 5.16 The funding for the provision of the Criminal Justice services is provided to the Joint Committee by the Scottish Government. It is the responsibility of the Joint Committee to approve the budget for the 3 Councils. It was found that indicative budget allocation reports are provided to the criminal justice finance contact within the Council.
- 5.17 Budget Monitoring arrangements in place are adequate. Regular interaction between respective finance contacts takes place. Budget Monitoring reports are provided internally to Head of Service which outline actual spend and forecast outturn. Where appropriate forecast journals have been processed through the ledger. There is a residual risk in respect of shared overspend within the partnership; however arrangements in place provide for early warning, challenge, formal reporting and remedial action.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There are 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Criminal Justice Social Work staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures		High/ Medium or Low		
There is no documented procedure in terms of the governance and reporting processes.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with reporting requirements.	Medium	Single document to be produced (and annually reviewed) that describes the processes supporting the CJ performance and reporting arrangements.	Business Support Manager 30 September 2016
2. Reporting		High/ Medium or Low		
Reporting timeframes for the partnership are not always met.	Failure to report in a timely manner may result in ineffective decision making.	Medium	Compliance with case audit timescales by front line managers to be reiterated at the Partnership Management Group on 19 July 2016 and reviewed by SMG March 2017	Criminal Justice Manager 31 July 2016



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Freedom of Information Requests
AUDIT DATE	April 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Freedom of Information (FOI) requests within Customer Services, Governance and Law as part of the 2016-17 Internal Audit programme.

The Freedom of Information (Scotland) Act 2002 (The Act) came into force on the 1st of January 2005 and gives everyone a legal right to request information held by a Scottish Public Authority. The Act aims to increase openness and accountability across the public sector by ensuring that individuals have the right to access information held by Scottish Public Authorities. Any recorded information contained in all paper records (including staff notebooks), electronic records, microfiche audio and visual material, which cannot otherwise be withheld under the exemptions contained in the legislation, can be requested.

The Act requires responses to be issued within 20 working days of receipt of the request and designated contacts have been identified across the various services of the Council to ensure that all requests are dealt with appropriately and within the statutory timescale.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review key controls to capture and respond to Freedom of Information requests across all departments as per timeframe and legislative requirements.

Control objectives included:

Authority:	The organisation has established an FOI access to information policy and responsibility for FOI has been formally assigned;
Occurrence:	Filing and recording systems (including electronic records) enable information to be easily located;
Completeness:	Requests are promptly transferred to the appropriate Service for action and procedures ensure that requests are actioned;
Measurement:	Procedures ensure information is regularly reviewed for accuracy and that it is up to date. Procedures are in place to record performance;
Timeliness:	Procedures ensure that requests are dealt with within the statutory timescales;
Regularity:	Policies and procedures have been established to protect assets from unauthorised access.

3. RISKS CONSIDERED

Failure to comply with the Freedom of Information legislation;
 Requested information is not provided;
 Excessive costs are incurred in dealing with FOI requests;
 The organisation does not comply with statutory timescales.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	High Assurance: Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

- 5.1 The organisation has established FOI policies and procedures which were available for review. Information relating to FOI and how to make an FOI request is readily available on the Council website. Information for staff, including details of the Service FOI contacts, is available on the HUB; although the procedure document requires to be reviewed as the Service FOI representative contact details were out of date.
- 5.2 Responsibilities for FOI have been formally assigned. The Governance and Risk Manager has been identified as the responsible Officer for compliance with FOI across the authority. The Risk Management Assistant has been assigned formal responsibility for the co-ordination and administration of FOI requests. FOI Service contacts have been identified to co-ordinate responses from Services.
- 5.3 Filing and recording systems enable information to be easily accessed; all FOI requests are logged on Axlr8 database system. All Service contacts have access to Axlr8 and it was found that FOI requests received directly by the Service were logged

allowing a complete record of FOI requests, tracking and reporting. Axlr8 records the date the FOI is received and automatically calculates dates by which responses are due. The database tracking system is used to monitor performance against timescales through a variety of reporting tools.

- 5.4 It was found that requests are promptly transferred to the appropriate Service for action and procedures ensure that requests are actioned where possible within the legislative timeframe. There is a dedicated email address for FOI requests and a link to this is available on the Councils' website. It was found that the 'inbox' for this email address is checked on regular basis and of the records reviewed it was found that requests were being forwarded to Service contacts in a timely manner.
- 5.5 Procedures support the timely actioning of FOI requests within required timeframes, however it was noted that not all Services met the agreed legislative requirements. It was found that Service FOI representatives sent regular reminders to managers responsible for replying to requests and where appropriate escalated non-compliance to Line Management.
- 5.6 It was found that procedures are in place to record performance. Monthly reports are supplied to Executive Directors/Heads of Service and Service FOI representatives. The Council can show performance against timescale of 93% for the last 4 years. Details are provided below:

	2013	2014	2015	2016
Total Number of Requests Received	1073	1211	1332	1323
Total Number of Requests Responded to within 20 Days	983	1136	1242	1223
Percentage Return	92%	94%	93%	92%

- 5.7 Although the Council consistently achieve an average response of 93% the individual Departmental performance varies. The table below details performance for Departments over the previous 3 year period:

	2013	2014	2015
	%	%	%
Customer & Support	100	100	100
Children & Families	100	100	100
Adult Care	100	99	100
Community and Culture	100	93	97
Improvement & HR	100	85	97
Facility	95	100	100
Governance & Law	95	97	97
Education	92	97	93
Development & Strategic Transportation	84	81	78
Roads & Amenities	74	77	83
Planning & Regulatory	74	87	80

5.8 Performance varies across departments with Development & Infrastructure showing below average return rate. It was noted that as at 28th April there were 3 responses open in excess to the 20 day legislative requirement (2 at 46 days and one at 53 days).

5.9 Exemptions can be applied for various reasons. A total of 1,332 FOI requests were made in 2015 with exemptions being applied as detailed below:

Total - Information not held	124
Total - Information otherwise accessible	44
Total - Excessive cost of compliance	10
Total - Prejudice to effective conduct of public affairs	10
Total - Commercial interests and the economy	6
Total - Personal information	19
Total - Information intended for future publication	1
Total - Confidentiality	6
Total - Prohibition on disclosure	1

- 5.10 A sample of exemptions across the categories was undertaken and it was found that there are processes in place to ensure reasonableness of application of the exemption categories.
- 5.11 The total number of reviews requested during 2015 was 46 and the number of appeals to the Information Commissioners Office was one. The appeal to the Information Commissioners Office was upheld in favour of the applicant on technical grounds as it ran over time scale and was undertaken as an FOI request instead of an Environmental Information Request.
- 5.12 It was found that the Governance Unit prepares reports for the DMT's and SMT and on an annual basis to the Executive and to the Audit Committee in the Annual Governance Statement.
- 5.13 FOI performance information is recorded on Pyramid on a quarterly basis; detailed by department.
- 5.14 Procedures have been established to ensure that FOI requests are dealt with within the statutory timescale of 20 working days. It was found that the Central Governance team monitor and report on performance which includes a process where alerts are sent to Service representatives after 10 and 15 working days.
- 5.15 Procedures have been established to protect information assets from unauthorised access. All Axlr8 users are provided with a user name and password. It was found that the system does not prompt users to change their password.

CONCLUSION

This audit has provided a Substantial level of assurance. General control areas displayed little residual risk however one Service identified showed an unacceptable risk in relation to response times for FOI requests which must be addressed within a reasonable timescale. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and Appendix 2. There is one high and one medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. There was one low recommendation which is not reported to the Audit Committee. Appendices 1 & 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Governance and Law staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1

ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Departmental Performance		High/ Medium or Low		
Departmental performance varies. Ranging from an average compliance rate of 100% within Children & Families and 78% within Roads and Amenities.	Failure to comply with FOI legislation leading to reputational damage.	High	To obtain an FOI performance and resourcing agreement from each Head of Service within Development and Infrastructure Services; and in turn demonstrate sustained improvement in FOI response timescales; initially review evidence for FQ2 2016/17.	Performance and Business Manager, Development and Infrastructure Services 31 October 2016
2. Security		High/ Medium or Low		
The database system (Axlr8) does not prompt users to change their password.	Failure to regularly change passwords may lead to breaches in security and loss of data.	Medium	All users of system will be advised of requirement to change password every 3 months and confirm to Governance Unit that they have done so.	Governance and Risk Manager 30 June 2016



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Older People Services
AUDIT DATE	April 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Older People Services within Community Services as part of the 2016/17 Internal Audit programme.

As at 1st April 2016 responsibility for the operation and delivery of all health and social care services, including Older People Services, within Argyll and Bute came under the remit of the Argyll and Bute Health and Social Care Partnership.

Homecare services are delivered via a combination of internal and external delivery mechanisms. Argyll and Bute Council's Procurement and Commissioning team are responsible for the contract and supplier management and this is complemented by the case file monitoring and review process carried out by Homecare Procurement Officers and Case Managers.

The audit will focus on compliance with agreed contractual arrangements with external providers with particular focus on the monitoring and controls in place.

There are currently 14 external Homecare providers within Argyll and Bute who provide 76% of the homecare provision, the balance is provided internally.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit are:

- Review contract monitoring and escalation protocols
- Test a sample of external contracts to ensure compliance with monitoring protocols
- Review performance reporting arrangements

Control objectives will include:

Authority –	Roles and delegated responsibilities are documented in policies and protocols and are operating well in practice.
Occurrence –	Sufficient documentation exists to evidence compliance with policies and protocols.
Completeness –	Policies and protocols are available and required documentation is fully maintained.
Measurement –	Policies and protocols are in line with requirements.
Timeliness –	Policies and protocols are regularly reviewed and updated as necessary.

Regularity – Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Ongoing Integration of Health and Social Care
- Reputational Damage to the Council
- Inadequate Monitoring and reporting arrangements
- Non-compliance with legislation

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.

No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.
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This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review Homecare Contract Monitoring and escalation protocols

Contract Monitoring Protocols

- It was evidenced that there are Contract Monitoring Protocols in place for the monitoring of Homecare contracts. A review of the protocols showed that there are specific monitoring requirements with regards to the following areas namely :

- Monitoring of Care provider information
 - Undertaking whole Service Reviews
 - Conducting of Post Contract Award Meetings
 - Provision of Provider Management Meetings
 - Undertaking of Quality of Care Monitoring
 - Benchmarking of Provider performance and Cost
 - Addressing Issues of Non –Compliance
 - Completing Contract Management Scorecard
-
- It was evidenced that the protocols had been approved by DMT in June 2012, however it was noted that Protocols had not been reviewed by the team until April 2016 at which point the legislation had changed.
 - Protocols specify the roles and responsibilities of persons tasked with monitoring the compliance of Homecare contracts. Responsibility for the monitoring of review packages of individual service users rests with social work officers with the specific monitoring of the service provider being the responsibility of the Procurement and Commissioning team.

Escalation Protocols

- It was evidenced that there are escalation protocols in place for the monitoring of Homecare contracts. A review of the escalation protocols showed that the following measures may be implemented if the service deteriorates to an unacceptable level :
 - Increased Monitoring Activity
 - Self-Imposed Deferment of referrals
 - Temporary Suspension of Service
- It was evidenced from documentation reviewed that the above escalation measures have been initiated and that detailed reasons for imposing these measures have been documented. No evidence of approval of the escalation protocols was found or of when they had been last updated.

Contract Compliance Monitoring Protocols

- A sample of 6 Service Providers who cover the Helensburgh and Lomond Area and Bute Area were chosen. Documentation was reviewed in regard to adherence to the contract monitoring protocols as outlined in the review of protocols section above.

- Monitoring of Care provider Information.

The protocols state that “it is the responsibility of the Procurement and Commissioning officer for maintaining a “watchful eye” on information held by the Care Inspectorate pertaining to those services.”

It was evidenced from documents forwarded to the 4 Area Committees that information pertaining to Care Inspection Grades awarded by the Care Inspectorate to Service providers was included.

It is noted that the term “watchful eye” is nonspecific and does not specify what the minimum requirements for monitoring of the Care Inspectorate grades.

- Undertaking whole Service Reviews

The protocol states that “the procurement officer will carry out quarterly contract monitoring visits that will support the social work officer in determining the efficiency and effectiveness of the service during the contract period. The care service monitoring document to be used at the quarterly meetings is detailed in the protocols.” The document covers such areas as supplier review and update, complaints, current performance against contract and the supplier scorecard review.

It was evidenced that for each of the Service Providers sampled that a quarterly meeting had taken place. A review of the documentation showed that the document was not fully completed for the meetings reviewed. An example of information not captured was section 10, Actions for Improvements.

- Conducting of Post Contract Award Meetings

The protocol states that the procurement officer will jointly conduct post contract award meetings within 3 weeks of any contract award with the successful tenderer/provider in order to discuss expectations, outline protocol and build positive relationships.”

With regards to the 6 Service Providers sampled, 3 of the providers were in place as a result of a tender process, the other 3 providers, due to continuity of care and client choice, have continued to provide services under preplacement contracts. For the providers sampled, where a tender process had taken place it was evidenced that a meeting had taken place with the minutes outlining expectations and protocols required to be put in place. It was noted that the date of the meeting for one of the providers was 6 weeks after contract award rather than the 3 weeks as specified in protocols. This provider was an existing care at home provider.

- Provision of Provider Management Meetings

The protocols state that “A programme of provider management meetings will be jointly agreed between the social work officer and the procurement officer based on the balanced scorecard of the protocols which details scoring in regard to quality and Service. Both parties to ensure staff are available to attend these meetings and play a full role in their facilitation.” The balanced scorecard includes scoring for a range of criteria examples of which are;

- Compliance with Specification
- Health and Safety
- Continued Improvement
- Responsiveness

It was evidenced that management meetings have taken place between the Provider and the Procurement Officer and that the information required as detailed in the scorecard has been completed, however the date of the meeting was not recorded on the scorecards under review. The date of these meetings was recorded on the risk registrar.

- Undertaking of Quality of Care Monitoring

The protocols state that “the social work officer will report any issues, concerns or appropriate enquiries arising from a monitoring exercise, to the procurement officer which may require to be addressed at provider management meetings”.

It was evidenced that Service Improvement forms, outlining any concerns or issues arising from the service, had been forwarded to the Procurement Officer. A review of these forms showed that the section entitled “outcome” had not been completed for the forms examined. It was evidenced from a review of minutes from provider management meetings that these forms are part of the agenda for discussion.

- Benchmarking of Provider information and Cost

The protocols state that “the procurement officer will have the main responsibility for benchmarking provider contractual performance against other providers delivering similar services.”

It was evidenced that benchmarking information against other providers delivering services has been carried out and reported to the area committees. Examples of benchmarking reported against other providers were:

- Care inspection grades
- Care package in place within 24 hours of referral
- Referrals declined
- Weekly hours commissioned
- Hourly rates charged
- Number of Service concerns from users.

- Addressing Issues of Non-Compliance

The protocols state that “the procurement officer will jointly deal with addressing issues of non-compliance including discussing action/improvement plans with providers, informing senior management in both departments of serious concerns and in reporting and making recommendations on future/continuing service provision.”

It was evidenced from a review of the Service Improvement documents that issues around non-compliance have been outlined and addressed. These issues are discussed as part of the periodic meetings between Social Work and Service providers and it was noted that resulting actions have arisen from these discussions. It was further evidenced that Service suspensions have taken place, reasons for these have been documented and raised at management meetings and recommendations on service improvement have been tabled.

- Completing Contract Management Scorecard

The protocol states that “the procurement officer is responsible for completing the contract management scorecard.”

It was evidenced that the contract management scorecard has been completed and that a comments section explaining the reasons given for each of the scores allocated had been given, however the date of the meeting was not recorded on the scorecards under review. The date of these meetings was recorded on the risk registrar.

Review Performance reporting arrangements

- It was evidenced that a quarterly report was prepared by the Procurement and Commissioning officer for the 4 area committees; the report covered the following areas:
 - Number of external services currently in area.
 - Weekly hours commissioned by service provider.
 - Care Inspectorate grades by Service provider.
 - Number of quarterly contract and supplier meetings comparing actual against target.
 - Number of Care needs reviewed with service user families and providers comparing target against actual.
 - Number of monitoring visits comparing actual against target.
 - Number of Service Monitoring improvements by provider (Provider not mentioned).
 - Number of complaints.
- It was noted that responsibility for presentation to the area committees of the above information has passed from the Commissioning and Procurement team to area managers. Information will continue to be accumulated by procurement and then passed to area managers.
- It was evidenced that information concerning Care Inspectorate reports, in relation to service providers as regards their grading and risk, is included within the Pyramid reporting system.

- It was confirmed verbally by the Head of Adult Services (East) that from 1st April 2016 responsibility for the provision of Older People Services has moved to the Health and Social Integration Board. It has been proposed that contract compliance review will be the responsibility of the Clinical Care Governance Committee which will report directly into the Integrated Joint Board.

General

- It was noted from the Leaders report of April 2016 that “Home care suppliers have been issued with a template for completion which will allow us to separate out travel costs and identify if there is any shortfall between their current hourly rate and the new £7.20 hourly rate required by legislation. This will also allow us to identify if there is any shortfall with the Scottish Living wage rate of £8.25 per hour which should be paid from October 2016 in line with the Scottish Government’s guidance and funding for Fair Work Practice.”

It was noted that a paper forwarded to the Community Services DMT in March 2016 outlined that a check had been done on 13 Service providers testing whether they complied with their contractual obligations concerning the minimum wage. The paper stated that no evidence was found of any breach in respect of minimum wage obligations.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There was 1 low recommendation which is not reported to the Audit Committee. Appendices 1 & 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Procurement and Commissioning staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Protocols				High/ Medium or Low
It was noted that there was no evidence of review of homecare monitoring protocols since 2012. In addition, there was no evidence of escalation protocols having been approved or reviewed.	Failure to regularly review procedures may lead to inefficient and ineffective operations resulting in non-compliance with current agreed practice.	Medium	Protocols reviewed in line with the new HSCP arrangements. Review date will be added to document	31st May 2016 Performance Improvement Officer, Customer Services
2. Record Keeping				High/ Medium or Low
It was evidenced that record keeping is incomplete in regard to some areas of documentation.	Failure to maintain accurate and complete records may lead to the misreporting and misinterpretation of data resulting in ineffective decision making.	Medium	The missing date box from the document referred to has now been inserted and all PCT staff are to complete this when carrying out contract management meeting. Procedures to be revised to ensure that n/a should be used where appropriate.	31st May 2016 Performance Improvement Officer, Customer Services



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF HOUSING REPAIR & IMPROVEMENT GRANTS
AUDIT DATE	MAY 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Housing Repair and Improvement Grants within Community Services as part of the 2016-17 Internal Audit programme.

Section 72 of the Housing (Scotland) Act 2006 requires a local authority to prepare and make publicly available a Scheme of Assistance for private sector housing to improve the quality and suitability across Argyll & Bute.

With effect from 1st April 2016 the new Integrated Health and Social Care Body has responsibility for disabled adaptations. There is a Scheme of Assistance document in place which outlines application criteria detail. This is in 2 Parts:

Part 1 – Those sections of the legislation relating to grants for adaptations.

To meet the assessed needs of people with long term life limiting conditions, who are living in the private sector and require adaptations to allow them to live in their homes as independently as possible for as long as they choose to do so.

Part 2 – All other grant funding for private sector housing including, repair, improvement, energy efficiency and empty homes grants.

To address disrepair in private sector homes by encouraging home owners to recognise that they have the primary responsibility for maintaining their properties. Limited resources will be targeted at properties where there are common repair responsibilities and empty homes.

Argyll and Bute Council's Housing Service will deliver both Parts 1 and 2 of the Scheme. It is accountable to the Health and Social Care Integrated Joint Board for Part 1 and to the Council for Part 2.

The Scheme of Assistance contributes to the following outcomes set in the Argyll and Bute Local Housing Strategy 2011-16:

- To lead a cultural change in attitudes to private sector house conditions
- To effectively deal with large numbers of sub-standard houses of all types and in all locations
- To provide support and assistance, including financial assistance,
- To realise the potential of communities by ensuring that people have access to affordable, sufficient and suitable housing

These aims will be achieved by offering the following types of assistance:

- Advice and Information (along with key partners in their relevant areas of expertise)
- Practical Assistance
- Financial Assistance
 - Adaptations – 3 Types of Grant available, one is mandatory and 2 discretionary
 - Repairs – 7 Types of Grant available, 6 are discretionary and one for energy efficiency is subject to budget and geographical limitation and Scottish Government criteria (managed on behalf of the Council by ALLenergy).

The budget for grant allocation during 2016-17 is £1.3m. The average number of grants applied for and awarded is around 270 per year with values ranging from £322 to £26k although legally there is no upper limit for disabled adaptations.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to assess controls in place throughout the private sector housing grant process and ensure that adequate evidence of expenditure is provided.

Internal audit will review any policies and procedures in place to establish compliance with relevant legislation, a sample of claims for financial assistance will be reviewed to ensure compliance with grant criteria.

Controls included:

- | | |
|----------------|---|
| Authority – | Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice |
| Occurrence – | Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation |
| Completeness – | Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained |
| Measurement – | Policies and procedures are in line with requirements of relevant legislation |
| Timeliness – | Policies and procedures are regularly reviewed and updated as necessary |
| Regularity – | Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff. |

3. RISKS CONSIDERED

SRR – External Built Environment

SRR – Reputation

SRR – Management of Services and Resources

ORR – Inability to ensure people successfully access a choice of suitable and affordable housing options in the area they want to live in.

Audit Risk – Failure to comply with relevant legislation

Audit Risk – Risk of collusion between staff and contractors

Audit Risk – Risk of grant paid for work that has not been carried out

Audit Risk – Risk of grant overpaid for work that has been carried out

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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5. FINDINGS

The following findings were generated by the audit:

Procedures

Procedure notes had recently been updated due to adoption of a new scheme of assistance. The procedures were found to be in line with legislative requirements and are subject to ongoing review and updated as required.

Enquiry & Advice

Notes are retained on the shared drive area of the Housing Services team and on a dedicated advice area within the ABRITAS Housing Management System, however, this is not linked to grant applications when received and recorded within the grant area of the system, thus precluding the full trail of communication and documentation together in one area of the system.

Applications for Grants (S74)

During 2015-16, 331 applications for grant assistance were received by Argyll and Bute Council. From this population of applications, a sample of 31 was selected for review.

Within the ABRITAS system, it was evidenced from the applications selected for review that appropriately completed and signed application forms containing descriptions, locations and estimated cost of work to be carried out and the proportion of cost to which the grant applies were present. Plans of work were available with the exception of one application, it was also noted that there is a requirement for an occupational therapist's referral document for disabled adaptation grant and in one instance it was unavailable.

Determination of Grants (S75)

There was evidence of approval of cost estimates provided for all applications as well as agreement of the applicant's contribution and owner consent to the work to be carried out. There was evidence that title deeds of properties had been reviewed for all applications to confirm ownership of premises for which the applications refer. Controls are in place in respect of assuring that work has not commenced prior to grant award. In all instances the work, as per plans and invoices, appeared to provide suitable/improved living

accommodation for the applicant as per stipulated criteria. There is a requirement for work to be completed within a 12 month timeframe; however this was not stated on all award notices.

Approval of Expenditure (S76)

In all applications reviewed, the approved expense related to the cost of the work to be carried out; this was evidenced through review of submitted quotes from suppliers as recorded on the ABRITAS system. There are not always 3 quotes available due to the type and location of work to be undertaken e.g. where specialist lift access is required for disabled adaptations. Additionally, where the grant relates to common repairs already included within other schemes, such as the Conservation and Regeneration Scheme (CARS) and Townscape Heritage Initiative (THI) projects, reliance is placed on the tendering process already undertaken although some documentation was available on ABRITAS. It was evidenced that the lowest tender was selected in all applications and there was no evidence of costs exceeding the estimated amounts.

There are no limits applied to the costs of works identified for disabled adaptations, clients are awarded an 80% grant unless there are grounds to award 100% grant e.g. following passported benefits. There is no limit as to the cost of other repairs identified, however, there is a limit as to the amount on which a grant may be calculated e.g. for common repairs, each property is awarded a grant calculated as a percentage on a maximum of £25,000, currently 40% for domestic and 30% for commercial premises.

Assessment & Review of Applicant's Contribution (S77 & 78)

Within the sample reviewed, there were 2 applicants requiring financial assessment, it was evidenced from documents within ABRITAS that both applicants provided confirmation that they were in receipt of benefits and therefore entitled to 100% grant award. There was, however, no evidence of review of financial circumstances by a senior member of staff other than the fact that all documentation is reviewed in the process of approving the grant and issuing the award notice.

Amount of Grant (S79)

The amount of grant is that of the total expense minus the applicant's contribution (if any). It was evidenced from information available on ABRITAS that all grants were calculated accurately.

Decision Notifications (S81)

It was evidenced that accurate decision notices were issued to all applicants within the sample reviewed.

All awards were appropriately authorised by relevant service staff and there was evidence of segregation of duties throughout the overall process.

Payment of Grants (S82)

It was evidenced that all grant payments were made following either submission of an invoice from contractors or an internal recharge to CARS. Payments were either made by single payment following completion of work or by instalments at agreed project stages (35%, 50 – 80% & 100%). Payment certificates evidenced that the sums of the instalment(s) paid did not exceed the value of works carried out at time of payment. Of the projects completed, there was little evidence to confirm that work had been monitored throughout the duration of the project and completed as per grant application; however, Internal Audit was advised that inspections are undertaken but note fields within the ABRITAS system had not been updated to reflect this.

All applications within the sample had been approved within the 2015-16 financial year; therefore there was no instance of work exceeding the 12 month timeframe at the time of the audit review.

Conditions of Grant (S83)

Grant conditions are recorded on titles and transfer with ownership on the sale of the property. Grant for repair, improvement or adaptation carries 4 statutory conditions. These are

1. The house must be used as a private dwelling, but that does not prevent the use of part of the house as a shop or office for business, trade or professional purposes.
2. The house must not be occupied by the owner or a member of the owner's family except as that person's only or main residence
3. The owner of the land must take all reasonable steps to keep it in a good state of repair.
4. The owners of the land or premises must, if required to do so by the local authority, certify that the conditions 1 to 3 are, in so far as they apply, being observed.

Failure to maintain the property for 10 years will result in the grant being reclaimed, with interest.

The conditions were stated on all grant award notifications issued to applicants within the sample selected.

Registration of Conditions (S84)

As noted above, there is a requirement to note the Council's interest in the land register. Upon completion of works, notification is sent to our Legal Services Department requesting the entry be processed. From the sample selected for review, 3 applications related to surveys and did not require the entry to be made, 2 notices were found attached to the relevant applicant within ABRITAS, 2 were awaiting processing onto the system, 3 were with Legal Services, and the remainder were not due for completion.

Breach/Discharge of Conditions (S85 & 86)

From the sample selected, there was no evidence of any breach of, or requirement to discharge conditions of grant awarded; however, it was too early in the 10 year period to fully assess.

Internal Audit was advised that periodic reviews are undertaken to ensure compliance with grant conditions with a large number recently completed. Conditions transfer with ownership and must be upheld, the optimum period to wait before carrying out inspections is 7 - 8 years following grant award. More frequent inspections would be beyond current resource availability. A programme of inspections is currently under development.

Fund Monitoring

The available funds are agreed by the Council at the beginning of each financial year as part of the capital planning process. For the year 2016-17, the approved allocation of £1m is available to applicants. The Monies are split £500,000 to Adaptations and £500,000 to repairs.

The lead in time associated with the repair works may in some instances result in payments out with the financial year, however a carry-forward facility is available and it was evidenced that active monitoring of both available balance and payments due takes place.

Adaptations are prioritised by Occupational Therapists with priority one being the mandatory grant category that must be awarded, others are discretionary and awarded on a first come first served basis.

Communal repairs in tenement buildings can take some time to reach agreement between all parties concerned, sometimes taking years for work to commence; once agreed, repairs are prioritised according to importance of work. Projects such as CARS & THI will take priority as they are to be completed within a definite timeframe. Argyll Community Housing Association (ACHA) have an obligation to Scottish Government to provide a specified standard of living accommodation, Argyll and Bute Council assist by providing private tenants or owners with grant funds. Where possible, the funds awarded are balanced between ACHA, CARS, THI & Private applications throughout Argyll and Bute, however, this is not always possible due to the varying demands across the area.

It was evidenced that funds are monitored by management on an ongoing basis through updating of an excel spreadsheet. There is regular engagement with Strategic Finance contacts through the monthly budget monitoring process and the level of fund and commitment is discussed at the Housing Management Team meeting held every month, with a representative from Strategic Finance in attendance.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There were 4 low recommendations set out in Appendix 1 which are not reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Housing Services staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CROSS CUTTING
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF STAFF PARKING PERMITS
AUDIT DATE	APRIL 2016

2016/2017



1. BACKGROUND

A review of staff parking permits across the Council has been planned as part of the 2016-17 Internal Audit programme.

Argyll and Bute Council provides staff with parking space at offices throughout the area, however, in some areas the available parking space is limited and therefore permits may be issued to staff who are deemed to be business users and have a requirement to travel regularly on and off site.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to review the issue/use of staff parking permits, any policies or procedures in place and their practical application. A sample of Council buildings was selected for review and Internal Audit undertook site visits as required.

3. RISKS CONSIDERED

SRR – Risk 8: Reputation

Audit Risk: Failure to adhere to policies and procedures

Audit Risk: Failure to ensure efficient use of work time

4. AUDIT OPINION

The level of assurance given for this report is No Assurance.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls

	are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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5. FINDINGS

Kilmory

Staff parking at Kilmory is free; therefore no parking permits are issued. There are approximately 120 car parking spaces available to staff at the rear of the building and 10 spaces available for visitors in the 'Woodlands' car park. There are 2 disabled spaces at the front of the building as well as an additional 12 parking spaces; however these are reserved for members of Council and the Strategic Management Team (SMT). There are currently 206 members of staff in post at Kilmory and the meeting/conference rooms can hold, approximately, an additional 205 people. Although at peak periods, parking spaces at Kilmory may be at a premium, there are no regular capacity/parking issues.

Whitegates Office

Staff parking at Whitegates is free; therefore no parking permits are issued. There are approximately 29 parking spaces and 2 disabled parking spaces available. There is also an additional overspill car park, at the old Lochgilphead Primary School, which can be used when the main car park is fully utilised. There are currently 69 members of staff in post at the Whitegates office and there are a number of meeting/training rooms that can hold, approximately, an additional 70 people. Although at peak periods, parking spaces at Whitegates may be at a premium, there are no regular capacity/parking issues.

Manse Brae

Staff parking at Manse Brae is free; therefore no parking permits are issued. There are approximately 60 staff parking spaces and 2 disabled spaces available. In addition to this there are 6 parking spaces for public visitors to the office. There are currently 135 staff members in post at Manse Brae and there are a number of meeting/conference rooms that can hold, approximately, an additional 31 people. Although at peak periods, parking spaces at Manse Brae may be at a premium, there are no regular capacity/parking issues.

Argyll House

Staff parking at Argyll House is free; therefore no parking permits are issued. There are approximately 30 staff parking spaces at the rear of Argyll House and an additional 3 parking spaces and 2 disabled spaces at the front of the building. There are currently 74 staff members in post at Argyll House and there a number of meeting/conference rooms that can hold, approximately, an additional 24 people. Although at peak periods, parking spaces at Argyll House may be at a premium, there are no regular capacity/parking issues.

Helensburgh & Lomond Civic Centre (H&L Civic Centre)

Staff parking at the H&L Civic Centre is free; therefore no parking permits are issued. There are approximately 107 parking spaces available for the Civic Centre; approximately 56 of these spaces are in the Grant Street Car Park. There are also 6 disabled spaces available. There are currently 150 staff members in post at the H&L Civic Centre and there a number of meeting/conference rooms that can hold, approximately, an additional 371 people. Although at peak periods, parking spaces at the H&L civic centre may be at a premium, there are no regular capacity/parking issues.

Witchburn Road

Staff parking at Witchburn Road is free; therefore no parking permits are issued. There are approximately 27 parking spaces available at Witchburn road; approximately 20 of these spaces are at the front and 5 to the rear, there are also 2 disabled places available. There are currently 81 members of staff in post in the Main Witchburn Road Building and a further 24 in the adjacent Old Registrar's building who share this car park, there are no meeting rooms available at either of these buildings. Parking spaces at Witchburn Road are at a premium with regular capacity/parking issues.

Municipal Buildings/Lorn House

The Albany St Car Park serves as staff parking for both the Municipal Buildings and Lorn House in Oban; however charges apply for parking in this car park, it is also heavily used by the Royal Mail service and is open to members of the public. There are 42 parking spaces and 2 disabled spaces available. There are currently 46 members of staff in post at the Municipal Buildings and 21 at Lorn House. Municipal Buildings and Lorn House have a number of meeting/conference rooms between them which can hold, approximately, an additional 47 people. Parking spaces are at a premium in Albany St Car Park with regular capacity/parking issues. This is the only location where permits are available.

Permits

There were no documented procedures in place to guide staff in the application or issue of staff parking permits. There are currently 39 parking permits in use by staff which have been funded by the Council through an internal recharge process. Development and Infrastructure staff receive requests for permits via the Council's email system or by telephone call. Internal Audit have been advised

that there is no limit as to the number of permits available and that a permit would be issued regardless of who the requester is so long as a cost centre and account code is provided.

Development and Infrastructure Services maintain the master list of all permit holders (public and staff) from which our sample was selected. It is maintained in a lever arch file with staff permits highlighted for quick reference. It was noted that one column heading was incorrect stating “Date Banked”, however, this contained the permit expiry date.

A sample of 9 (25%) Council funded permits were selected from the master list and reviewed, the findings are noted below;

- There was no evidence of business justification provided in any case
- There was no evidence of management authorisation; although 2 managers were copied into email requests for issue of permits
- One was requested by the user them self
- Two were requested by administration staff with no evidence of managerial authorisation.
- Four permits had no back-up documentation and are thought to have been issued following requests by phone calls
- None of the recorded requesters were found on the Council’s authorised signatories list although both managers who were copied into emails were.

Development and Infrastructure records also show that there are currently 7 permits in use that have been bought personally by staff who are deemed ineligible for business use provision, however, as stated above there is no definition of criteria. Upon further investigation, Internal Audit found that the cost of one of these permits had been reimbursed to a member of staff through the travel claim process due to requirement to travel for business purposes.

6. CONCLUSION

From the offices tested, sufficient parking exists with the exception of Witchburn Road in Campbeltown and the Municipal Buildings and Lorn House in Oban. In relation to the Albany Street Car Park in Oban, parking permits are in use; however, formal procedures and documentation are not available. It was not evidenced that the allocation process was criteria based and there was no evidence of internal controls such as authorisation, segregation of duties & measurement being in place.

This audit has provided no assurance. There was 1 high recommendation for improvement identified as part of the audit and this is set out in Appendix 1; this will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendation, the persons responsible for the action and the target date for completion of the action. Progress with implementation of the action will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Lack of documented procedure		High/ Medium or Low		
There were no documented procedures in place to guide staff in the use, application or issue of staff parking permits.	Failure to have documented formal policies, procedures and processes may lead to inconsistent decision making resulting in an adverse effect on staff morale and reputation.	High	Head of Improvement & HR to liaise with Head of Roads & Amenity Services to develop a protocol which documents the use, assessment criteria and issue of parking permits in order to ensure openness and transparency.	Head of Improvement & HR Head of Roads & Amenity Services 30 September 2016



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Project Certification
AUDIT DATE	May 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Project Certification within Development & Infrastructure as part of the 2016/2017 Internal Audit programme.

Argyll & Bute Council submitted project proposals to Strathclyde Passenger Transport (SPT), three projects were awarded Grant funding for the year 2015/2016. These were:

Bus infrastructure upgrades in the Helensburgh Area	£100,000
Helensburgh and Lomond Cycleway	£175,000
Turning Circle at Rest and Be Thankful	£150,000

The project proposals were evaluated against transport planning objectives, project justification, deliverability criteria and affordability. Projects were assessed against: strategic alignment with the Regional Transport Strategy and Transport Outcome Reports; integration with existing development plans; anticipated benefits for the regional and local transport networks; and the level of risk to project delivery within the intended project programme and available funding, taking account of the value of any other grants or match funding included in the proposal.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review key arrangements for project certification including retention of documentation and record keeping. The Audit focussed on the Turning Circle at Rest and Be Thankful project.

Controls will include:

Authority:	The organisation has established Governance and Reporting procedures;
Occurrence:	Sufficient documentation exists to evidence compliance with grant arrangements;
Completeness:	Required documentation is fully maintained;
Measurement:	Procedures ensure information is regularly reviewed for accuracy and that it is up to date;
Timeliness:	Procedures ensure that reports are provided within timescales;

Regularity: Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Projects have appropriate corporate input;
- Reputational risk to the Council in not delivering project;
- Inadequate Governance arrangements.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised

No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.
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This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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FINDINGS

The following findings were generated by the audit:

Grant Offer Letter

The Grant Offer letter is appropriately signed on behalf of the Council by the Head of Strategic Finance.

Project Delivery Monitoring

SPT projects are included in, and as part of, the Capital monitoring spreadsheet with a designated individual line. Capital monitoring reports are produced monthly. These go to the Asset Management Board, Development & Infrastructure DMT, and SMT monthly. They also go to the Policy & Resources Committee quarterly and full Council at the year end. The reports compare actual spend, full current year forecast spend, and total project forecast spend against budget. For both income and expenditure, any variations to actual, forecast and budgeted figures are highlighted and explained. Written Reports are provided by the Strategic Transportation and Infrastructure Manager as updates for the Council Policy Lead for Transportation.

Site visits were undertaken by an independent company (civil engineering) and progress reports were provided to the Service on a monthly basis, including photographic evidence. The company were appointed to oversee the design work, including undertaking site management works.

The Council meet formally with SPT at their monthly Liaison Group meetings which involves officers from all 12 Council's in SPT's area. The Council gives a brief project update at this meeting. Minutes are recorded of this meeting. With regards to expenditure incurred, the Council meet quarterly with SPT Project Officers to discuss progress with projects and amend the profile spreadsheets. These meetings are informal, however, monitoring spreadsheets and spend profiles are updated following meetings to reflect progress with projects. Towards the financial year end SPT also requested that the spreadsheet is completed showing year end spends on projects.

Project Delivery

The grant conditions state that the Council should make best endeavour to complete the project by 31st March 2016. It was evidenced that the project was complete within the agreed timeframe with the grant award being fully claimed.

Procedures

Grant conditions are well documented and informal arrangements on the management of grant processes are agreed with SPT. Grant conditions state the SPT and the Council shall agree appropriate expenditure and invoicing profiles for the project. We were unable to evidence any documented process or flow chart was in place in respect of SPT Grant Funded projects.

Recommendation

Consideration should be given to drawing up formal internal processes for the application and management of grant funded projects, this should include procedures that comply with the terms of the grant.

Financial Processes

As required by the terms of the Grant a discrete cost centre for the Rest and Be Thankful Turning circle is being used to identify income and expenditure.

Monthly Capital Budget Monitoring reports are sent from Strategic Finance as part of the internal monitoring processes for comment and return to Strategic Finance. Roles and responsibilities have been identified including designated budget holder and finance contact.

There is evidence of segregation of duties, invoices are checked by appropriate staff and then passed to 3rd tier management for authorisation, however, it was found that on one invoice the value authorised by the 3rd tier manager exceeded their authorisation limit. A debtor invoice corresponding to the payment debtor invoice is raised to SPT in order to draw down the equivalent grant funding. It was found that the debtors invoice was raised to SPT within an appropriate timeframe for the drawdown of grant funding. The debtors invoice was authorised by an appropriate person.

Recommendation

It was found that one of the invoices from the Contractor had been authorised by a member of Development & Infrastructure staff which was beyond their authorisation limits. Processes must be tightened to ensure that only appropriately authorised signatories are signing Invoices within the agreed limits.

Document Retention

The Council are required to identify all income and expenditure in relation to the grant in a discrete cost centre and in terms of record retention are required to keep copies of invoices and receipts for a period of 6 years following the completion of the project. It was found the Council are compliant with the terms of the grant.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There is 1 high and 1 medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Development & Infrastructure staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Authorisation		High/ Medium or Low		
Authorisation limits exceeded	Increased risk of unauthorised spend against Grant Funding leading to potential overspends and/or ineffective use of resources.	High	A written procedure will be put in place which includes clarification of the Council's authorisation limits for invoices.	Strategic Transportation Quality Officer 30 September 2016
2. Procedures				
There are no written procedures in place in respect of governance and reporting processes for SPT Grant funding.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with grant conditions.	Medium	A written procedure will be put in place outlining processes required to be compliant with the terms and conditions set out by SPT in their grant funding award letters.	Strategic Transportation Quality Officer 30 September 2016



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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
17 JUNE 2016**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2015 – 2016.

1. EXECUTIVE SUMMARY

- 1.1 Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. This report and attached appendices are the results from a review performed by Internal Audit for recommendations due to be implemented by 30 April 2016.
- 1.2 The process requires departmental Executive Directors assigning a 3rd tier officer to act as the sole contact for the follow up of both external and internal recommendations. The contact role involves updating both the Executive Directors and Internal Audit on progress with agreed audit recommendation implementation.
- 1.3 Appendix 1 is a statistical summary of all agreed recommendations arising from National, External and Internal Audit reports by department. Detailed is the number of recommendations due as at 30 April 2016, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.
- 1.4 Appendix 2 provides a summary as at 30 April 2016, of all outstanding recommendations from National, External and Internal Audit reports by department and service. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous implementation dates reported to the Audit Committee management comment and Pyramid status
- 1.5 Appendix 3 provides a summary of External and Internal Audit reports by department and service that are due after 30 April 2016 and not on track to achieve the agreed implementation dates. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous implementation dates reported to the Audit Committee, management comment and Pyramid status.

2 RECOMMENDATIONS

- 2.1 The audit committee note the content of this report.

3 CONCLUSION

- 3.1 Of the recommendations due for completion by 30 April 2016, 23 have been completed. Internal Audit is satisfied with the status of the remaining

13 recommendations being delayed but rescheduled. Good progress is being made on the recommendations due after 30 April 2016 with 11 completed early and timely identification of 3 requiring to be rescheduled. Further programmed testing of post follow-up actions will be undertaken via the continuous monitoring programme.

4. IMPLICATIONS

4.1	Policy:	None
4.2	Financial:	None
4.3	Legal:	None
4.4	HR:	None
4.5	Equalities:	None
4.6	Risk:	Failure to implement agreed actions leads to financial, physical and reputational loss and adversely impacts organisational objectives.
4.7	Customer Service:	None

For further information please contact Kevin Anderson (01369 708505)

Kevin Anderson
Chief Internal Auditor
17 June 2016

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 FEBRUARY 2016 – 30 APRIL 2016

SERVICE	Complete	Delayed but rescheduled	Total
CHILDREN & FAMILIES	6	3	9
COMMUNITY & CULTURE	0	7	7
ECONOMIC DEVELOPMENT	3	0	3
EXECUTIVE DIRECTOR CUSTOMER SERVICES	3	0	3
FACILITY SERVICES	4	0	4
IMPROVEMENT & HR	1	1	2
PLANNING AND PERFORMANCE	1	0	1
ROADS & AMENITY SERVICES	3	2	5
STRATEGIC FINANCE	2	0	2
TOTALS	23	13	36

RECOMMENDATIONS DUE AFTER 30 APRIL 2016

SERVICE	Complete	On Course	Delayed but rescheduled	Total
CHILDREN & FAMILIES	3	0	0	3
CUSTOMER & SUPPORT SERVICES	0	1	0	1
ECONOMIC DEVELOPMENT	0	1	2	3
EDUCATION	1	9	1	11
GOVERNANCE & LAW	0	1	0	1
IMPROVEMENT & HR	5	1	0	6
ROADS & AMENITY SERVICES	0	1	0	1
STRATEGIC FINANCE	2	0	0	2
TOTALS	11	14	3	28

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Recommendations Overdue 30 April 2016

ACTION WEAKNESSES/GOOD PRACTICE: AGREED ACTION: DATES: COMMENT/EXPLANATION: PYRAMID:
 PLAN NO: GRADE: RESPONSIBLE OFFICER:

DEPARTMENT COMMUNITY SERVICES

SERVICE CHILDREN & FAMILIES

REPORT NAME REVIEW OF FOSTERING & ADOPTION ARRANGEMENTS

3	It was noted that arrangements for record keeping are fragmented and information is held in a number of separate systems. LOW	The Adoption and Fostering Service operates Carefirst as its primary record keeping system and is in the process implementing further Carefirst modules to improve management information and the payment of allowances.	30 September 2015 31 March 2016 31 October 2016	Configuration development and testing have been completed on the test environment, including the development and testing of an interface to Oracle. Configuration has been transferred to the live environment and work is underway to collect and organise all of the data required to complete the data entry phase of implementation. The project is on schedule to be complete by 31 October 2016.	Delayed but rescheduled Principal Accountant - Community Services
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6	The current system is labour intensive with a number of manual interventions. It was noted that a planned move to the care financials within the CareFirst system has not progressed as scheduled. LOW	Move to "care financials" will be rescheduled. The use of electronic templates and signatures will be implemented for Carers expenses.	31 December 2015 31 March 2016 31 October 2016	Configuration development and testing have been completed on the test environment, including the development and testing of an interface to Oracle. Configuration has been transferred to the live environment and work is underway to collect and organise all of the data required to complete the data entry phase of implementation. The project is on schedule to be complete by 31 October 2016.	Delayed but rescheduled Accountant - Foster & Adoption
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REPORT NAME REVIEW OF SCHOOL HOSTELS 2015/16

1	The "Administration of Medicines in Residential Child Care" draft policy created in consultation between Argyll and Bute Council and NHS Highland has been in draft format for approximately 2 years. HIGH	Management to liaise with NHS Highland with a view to finalising policy as soon as possible.	30 April 2016 31 July 2016	The draft policy is currently still under review by the policy group.	Delayed but rescheduled Locality Manager (Oban, Lorn & Isles)
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ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
<p>SERVICE COMMUNITY & CULTURE</p> <p>REPORT NAME REVIEW OF ADULT LEARNING</p>					
2	It was noted that an increasing number of referrals to access Adult Learning services are coming from Job Centre Plus which has led to resourcing pressures within Community Based Learning. MEDIUM	Monitor and report the number of referrals coming from Job Centre Plus and any associated resource pressure.	30 September 2015 31 March 2016 31 October 2016	Implementation date delayed until October 2016 in order to gauge impact of introduction of Universal Credit on nos. of jobseekers referrals from Job Centre Plus/DWP.	Delayed but rescheduled Community Learning Manager
<p>REPORT NAME REVIEW OF SINGLE OUTCOME AGREEMENT 2015/16</p>					
1	No evidence that any consideration is given to identifying critical activity actions HIGH	Review of SOA Delivery Plan will identify critical actions. This review is planned for Sep 15- April 16.	30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager
2	Review of quarter 4 2014/15 score cards showed that for 5 out of the 6 outcomes there were elements of performance indicators data where no information had been provided and no explanation given. MEDIUM	Clarity of SOA reporting procedure within guidance issued to Outcome Leads to emphasise their role for ensuring explanations of data are in quarterly reports.	31 December 2015 30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager
3	Review performance indicators to ensure that data is relevant and meaningful and also ensure a robust data collection support system is in place. MEDIUM	SOA Delivery Plan review will determine the relevance and robustness of data. This review is planned for Sep 15- April 16.	30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager

ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
4	There is evidence that some partners do not have adequate arrangements in place to reliably provide performance data to support effective scrutiny. MEDIUM	SOA Delivery Plan review will ensure that all actions contained can be reported on with performance data and aspirational actions are identified separately.	30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager
5	There was no evidence of a procedural document being available which specified the administrative interactions and protocols in place in order to track/monitor and report performance associated with the delivery plans. MEDIUM	Produce procedural document for clarity on process, roles and responsibilities for performance management of the SOA.	31 December 2015 30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager
6	It was evidenced that partial liaison takes place between outcomes leads and short term leads as regards states of actions prior to the quarterly meetings but no evidence could be found that all outcome leads hold these discussions. LOW	Procedural document to determine that all outcome leads communicate with short term outcome leads quarterly to review progress.	31 December 2015 30 April 2016 30 June 2016	A decision was made by the Community Planning Partnership (CPP) at their meeting on 24th March to extend the period of delivery plan review to the end of June. This was unexpected but has been agreed necessary by the CPP.	Delayed but rescheduled Community Planning Manager

DEPARTMENT CUSTOMER SERVICES
SERVICE IMPROVEMENT & HR
REPORT NAME REVIEW OF PERFORMANCE MANAGEMENT – PYRAMID

1	The COGNOS report providing PRD data is unreliable. HIGH	The Resourcelink 4 Project ensures the creation of reports to provide reliable data.	31 March 2016 31 December 2016	This is not within the scope of the RL4, so has been transferred to the RL5 project. The new RRS reports will be prepared, tested and operational by the revised date of December 31st 2016	Delayed but rescheduled Head of Improvement and HR
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ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
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DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES
SERVICE ROADS & AMENITY SERVICES
REPORT NAME REVIEW OF ROADS MAINTENANCE PRIORITISATION 2015/16

2	It was noted that the Roads Maintenance Manual is currently under development and subject to approval. HIGH	Roads maintenance manual is currently being prepared and will be forwarded to all relevant roads personnel.	31 January 2016 29 February 2016 31 August 2016	The revised RAMP and Roads Hierarchy coupled with the Safety Inspection and Defect Categorisation document (approved at EDI Committee on 7th April) now allow the manual to be completed and distributed by August 2016.	Delayed but rescheduled Roads Performance Manager
5	It was noted that two performance indicators specifically mentioned in the RMAMP (2004) are not reflected in the current Pyramid performance data. It was noted that there is limited performance data included in the quarterly Revenue performance report. It was noted that Scorecard data reported to EDI Committee does not included specific reference to Road Maintenance indicators. MEDIUM	Performance data including KPI's to be included in Pyramid are currently being reviewed and agreed. Policy documents will be updated accordingly.	30 September 2015 30 April 2016 30 June 2016	Roads condition index measures now added to the Pyramid Scorecard for 2016/17. Meeting scheduled for 23/05/16 to start the process of rationalizing data in Pyramid.	Delayed but rescheduled Head of Roads and Amenity Services

Recommendations Due After 30 April 2016

ACTION PLAN NO:	WEAKNESSES/GOOD GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE
DEPARTMENT COMMUNITY SERVICES SERVICE EDUCATION REPORT NAME EDUCATION - EARLY YEARS NOVEMBER 2015					
2	Procedure Document There are a number of procedure documents and guidance documents available, however these now require to be updated. Lack of overarching guidance document may lead to inconsistent practice resulting in objectives not being met. MEDIUM	Education to update and revise procedures and guidance as appropriate.	30 June 2016 31 August 2016	Rescheduled to August 2016 due to work pressures.	Delayed but rescheduled Principal Officer Early Years
DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES SERVICE ECONOMIC DEVELOPMENT REPORT NAME ECONOMIC DEVELOPMENT ACTION PLANS 2015/16					
1	SMART Actions: Some actions within area-based EDAPs were not time bound or measurable. MEDIUM	Some actions cannot be time bound due to the nature of the item i.e. they are linked to external factors outwith the direct control of the Economic Development and Strategic Transportation Service staff. However, where possible items are time bound and monitored. This will be taken forward during the preparation of the area-based EDAPs for 2016/17 in May 2016 (discrete workshops will be held in May in each area with elected members and members of the local Community Planning Groups). The 2016/17 area-based EDAPs are due to be approved by the Area Committees in June 2016.	30 June 2016 31 August 2016	Workshop sessions on 23rd, 24th, 27th and 31st May have now been organised across all four administrative areas. All elected members and community planning partners have been invited to participate in these EDAP workshop sessions. The area-based EDAPs will now go to the Area Committees in August 2016, as the June Area Committee papers would require to be submitted before the area-based EDAP workshops had taken place, late May 2016.	Delayed but rescheduled Economic Growth Manager

ACTION PLAN NO:	WEAKNESSES/GOOD GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE
4	There was no evidence that actions included within each of the EDAPs have been prioritised MEDIUM	Many actions cannot be prioritised as they are subject to external factors which are beyond the control of Economic Development and Strategic Transportation Service staff. However, where actions can be prioritised this will be taken forward during the preparation of the area-based EDAPs for 2016/17 in May 2016 (discrete workshops will be held in May in each area with elected members and members of the local Community Planning Groups). The 2016/17 area-based EDAPs are due to be approved by the Area Committees in June 2016, complete with prioritised actions, as appropriate.	30 June 2016 31 August 2016	Area-based EDAP actions will be prioritised as appropriate during the preparation of the 2016/17 plans. Reference will be made to the Compelling study and the recent Economic Forum report. The area-based EDAPs will now go to the Area Committees in August 2016, as the June Area Committee papers would require to be submitted before the area-based EDAP workshops had taken place, late May 2016.	Delayed but rescheduled Economic Growth Manager

AUDIT COMMITTEE ANNUAL REPORT 2015/16**Introduction by the Chair of Audit Committee**

This report provides an overview of the Audit Committee's activity during the financial year 2015/16.

I am pleased to report that the Audit Committee continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note".

The Audit Committee met quarterly throughout the financial year i.e. March, June, September, and December; the meetings were attended by representatives of the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor, Audit Scotland along with other Council Officers as and when requested to attend.

In 2015/16, the following Councillors served on the Audit Committee at various points during the year; Gordon Blair, Maurice Corry, Iain MacDonald, Iain S MacLean, Richard Trail and Michael Breslin. In respect of the Chair and Vice Chair posts, I, Martin Caldwell continued in the role of Chair with Sheila Hill as Vice Chair and I am pleased to advise the our term has been extended to 31 October 2017.

In looking forward to 2016/17 and beyond, given the significant financial pressures challenges facing the Council and the implementation of major initiatives such as of Health and Social Care integration, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead and continuing to add value to the Council's governance framework.

Martin Caldwell
Chairperson

Sheila Hill
Vice Chairperson

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1. Terms of Reference

- 1.1 The Committee's Terms of Reference are to promote good internal control, financial and risk management, governance and performance management. This provides substantial assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.
- 1.2 The specific Terms of Reference are as follows –

Constitution

- The Council has established a Committee to be known as the Audit Committee.

Key Activities

- Agree the Internal Audit strategic plan, oversee and review action taken on Internal Audit recommendations;
- Consider the annual report, opinion, and summary of Internal Audit activity including the level of assurance it can give over the Council's corporate governance arrangements, internal control and risk management system, and to consider other specific Internal Audit reports.
- Consider the External Auditor's Annual Audit Plan, Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- Comment on the scope and depth of External Audit work and to ensure it gives value for money;
- Commission work from Internal Audit, External Audit and third parties where appropriate;
- Consider the performance of Internal and External Audit;
- Facilitate training to support the role of Audit Committee Members;
- Develop a culture of compliance within the Council to ensure the highest standards of probity and public accountability;
- Support best practice in the financial administration of the Council;
- Review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment;
- There should be a least one meeting a year, or part thereof, where the Audit Committee meets the Internal and External Auditors separately from management;
- The Committee will prepare an annual work plan setting out meeting dates for the financial year and anticipated Internal Audit, external audit and management reports expected to be covered at each meeting; and
- The Committee shall prepare an annual report to the Council covering its activities and key findings each year. This report will be considered at the Council meeting that agrees the External Auditor's annual audit letter; and in addition, the Committee will submit highlight reports to the Council as appropriate.

Regulatory Framework

- Maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- Monitor and seek assurance with regard to risk control measures through the review of the effectiveness of risk management systems and corporate governance in the Council;
- Monitor the Anti-fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour; and to consider the Council's compliance with its own and other published standards and controls; and
- Monitor the Council's compliance with the Public Interest Disclosure Act and the Bribery Act in the discharge of its functions.

Financial Accounts and Governance

- Examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure that:
 - (a) The expenditure approved by the Council has been incurred for the purposes intended;
 - (b) Services are being provided efficiently and effectively;
 - (c) Value for money is being obtained, all in accordance with Best Value requirements; and
 - (d) The Council has appropriate information and advice available to them to make decisions.
- Review the annual statement of accounts, specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- Oversee the production of the Council's Governance and Internal Control Statement; and
- Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Other Monitoring

- Assess the effectiveness of the Council's Performance Management System;
- Consider performance and inspection reports from Internal Audit, external audit and other relevant scrutiny bodies;
- Commission specific reviews to be carried out where necessary;
- Review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;

- Review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans in terms of audit work to be undertaken by both external and Internal Audit; and
- The Chief Executive will attend one meeting per annum to report on how the Council is addressing its key strategic risks and other matters of interest.

2. Audit Committee's Effectiveness and Impact

2.1 The Audit Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively. The Audit Committee receives and reviews reports covering:

- External and Internal Audit Annual Plans and Audit Reports;
- Quarterly Progress Reports on Internal Audit Activity;
- Audit Recommendation Follow up Reports;
- Risk Management Reports;
- Corporate Performance Audit Report;
- Council's Assurance & Improvement Plan;
- Financial Statements;
- Treasury Management Assurance Report;
- Where appropriate Audit Scotland National Reports;
- National Fraud Initiative Reports; and
- Performance Management Annual review /assurance report.

2.2 The Audit Committee has the right to request updates after reviewing submitted reports. This approach afforded the Audit Committee the opportunity to ask directly key questions and receive assurances. In addition, the Audit Committee can routinely challenge management when agreed audit recommendations implementation dates were missed.

2.3 Audit Scotland in March 2016 presented their Annual Audit Plan setting out their approach to the audit of the Council, reflecting their statutory duties and risk based approach. The Audit Plan was considered by the Audit Committee and accepted. Internal audit also presented their annual audit plan for 2016/17 which was approved.

2.4 It is disappointing to note that Member attendance at quarterly meetings has seen an adverse movement from previous years. It is essential that members of the committee engage in the process in order to ensure the Audit Committee builds on its effectiveness and maintains a positive impact and high profile within the Council.

A number of changes to the membership of the Committee took place during the year which has had an impact on continuity and development plans. Councillors Corry, MacDonald and Blair are no longer members of the Committee. There are currently two vacancies on the Committee.

2.5 In its ongoing development the Audit Committee introduced a number of changes resulting in additional assurance and improved effectiveness and these continue to mature. These are:

- Securing an Assurance Mapping report for the Council
- Developing communication protocols between Internal and External Audit

- Developing a link between Audit and Performance Review & Scrutiny Committees
- Securing an Annual Audit and Risk report from the Chief Executive.
- Strengthening the process of annual audit plan preparation by requesting draft version for early discussion.
- Undertaking Effectiveness self -evaluation using CIPFA guidance documentation
- Introduction of informal Effectiveness / development sessions prior to Audit Committee meetings.

2.6 Increased management attendance at Committee meetings has allowed members to challenge officers actively in relation to findings and recommendations within reports. It is intended that where reports are of limited assurance level then relevant management /officer representation will be available as matter of course.

3. Assurances

3.1 Internal Audit Assurance

3.1.1 Internal Audit is a key source of assurance for both members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance. The Committee is pleased to note the Internal Audit team has been appropriately resourced throughout the year allowing the timely completion of the annual audit plan.

3.1.2 The Committee has received regular reports and information from the Chief Internal Auditor including:

- Internal Audit's risk based planning methodology and annual audit plan;
- Regular progress reports;
- An Annual report from the Chief Internal Auditor in line with best practice in the CIPFA code for Internal Audit in Local Government which provided an opinion on the control environment and the effectiveness Internal Audit activity.

3.1.3 Control weaknesses are effectively dealt with via a follow-up process which is reporting quarterly to the Committees emphasising the importance of fully implementing Internal Audit recommendations.

3.1.4 At the March 2016 meeting, the committee noted a change to Assurance opinions with main change being the introduction of Reasonable Assurance which sits between existing Substantial and Limited opinions. This change will be effective from April 1st 2016.

3.2 External Audit Assurance

3.2.1 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the External Audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. Both programmes are submitted to the Audit Committee for scrutiny.

3.2.2 Assurance was received from external auditors, Audit Scotland, for 2014/15 financial statements as follows:

- They presented a true and fair view in accordance with applicable law;
- The accounts prepared properly in accordance with IFRS; and
- The accounts prepared properly in accordance with Local Government Act (Scotland) 1973.

3.2.3 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2014/15.

3.2.4 The external auditor's 2014/15 Annual Audit Report on the council (September 2015) highlights that operational governance arrangements are generally sound, with key financial controls operating effectively. In their 14/15 report, External Audit included a review of internal audit and concluded that overall the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

3.3 Systems of Risk Management

3.3.1 It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and on the adequacy of the system of risk management. The role of the Audit Committee is to test the adequacy of the arrangements in place to manage risk. The Audit Committee in 2015/16 received risk management reports and these showed continued progress by the Council in the development and regular review of risk management systems. The Audit Committee has agreed to maintain its focus on seeking assurance on the development of adequate systems of risk management. The Audit Committee continue to receive an Assurance Mapping report prepared by Grant Thornton, Internal Audit Strategic partners. The Chief Executive also submitted a report to the committee on Audit and Risk arrangements.

3.4 Governance & Internal Control

3.4.1 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2013/14, together with an Action plan was presented and reviewed at the June 2015 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and noted for inclusion in the Annual Accounts, subject to External Audit feedback. A final version was submitted to the PRS committee for formal approval.

3.4.2 The draft Statement of Governance & Internal Control was informed by the:

- Work of officers within the Council;
- Work of External and Internal Audit;
- Statements of governance or internal control provided by external bodies;
- External review and inspection reports and
- Recommendations from the Audit Committee.

The content of the Governance Statement and the process for preparing the Governance Statement has been reviewed for 2015-16 financial year-end.

4. Independence

- 4.1 To assist in preserving the Committee's independence and provide a clear distinction between the Audit Committee and the Performance Review and Scrutiny Committee measures are in place including:
- The appointment of an independent chair and vice chair; and
 - Clear terms of reference for both Committees
- 4.2 There are areas where Audit and Scrutiny naturally combine and a basic protocol for joined up working or areas of collaboration is in place. The Chief Internal Auditor, although having no direct operational responsibility, will have an overview of Scrutiny support arrangements and will liaise with the respective chairpersons.

5. Training and Development

- 5.1 The Council continues with its Internal Audit partnership approach with Grant Thornton which has proved very beneficial in terms of PSIAS compliance, strategic support and specialist discreet areas of work. Looking forward Grant Thornton will undertake a piece of work in relation to preparing an IT Risk Assurance MAP which will be used to inform future year Audit Plans.
- 5.2 Audit Committee Effectiveness sessions have taken place throughout the year, aimed at addressing themes arising from analysis of the CIPFA self-assessment exercise. It is anticipated that these will continue throughout 16/17, albeit in a different format and frequency. Any specific training requirements or requests will be addressed as and when they arise.

6. Looking Forward

- 6.1 Argyll and Bute Council was previously incurring an External Audit fee at the higher level as a result of increased correspondence from members of the public. In my last report I noted it was the desire of the Audit Committee in carrying out its activities to endeavour to add additional assurance in respect of governance, risk and control processes which would hopefully contribute to a possible reduction in external audit fees. I am pleased to note that the Audit Fee has now reduced and hope that the work of the committee contributed, in some part, to the overall reduction.
- 6.2 The Committee is committed to self-evaluation and continuous improvement. Due to current vacancies and change in membership, effectiveness sessions will be postponed in the short term and replaced with a development day for new and existing members. I would like to thank members for their attendance and contributions to these to sessions. Our focus will continue to be on the role of the Audit Committee, developing skillset and expertise to allow effective challenge together with the on-going interaction with the work of the Scrutiny committee and as such it is essential that the vacancies on the committee are filled as early as possible and that new members of the committee are fully signed up to continuous improvement.

7. Conclusion

7.1 Based on the reports received and reviewed by the Committee and the follow up work requested, it is the opinion of the Audit Committee that an overall substantial assurance opinion can be placed upon the adequacy and effectiveness of the Council's internal control system in 2015/16. It is noted that 4 reports did have limited assurance with unacceptable residual risk and weaknesses identified however this is mitigated by active monitoring and follow up of recommendations together with timely management action. This follow up process will be further enhanced by the inclusion of supplementary further testing within the continuous monitoring programme.

7.2 Throughout 2015/16 the Audit Committee evolved and continues to evolve with an agreed framework of reporting and agenda management which allows it to undertake appropriate assessment of the Council's progress in addressing identified issues covering risk, governance and internal control. With a solid base established in this regard, the Committee continues to adopt a pro-active posture on the Council's operations.

Audit Committee performance has been aided through the expertise and contribution from its Members during 2015/16.

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Unaudited Annual Accounts for the year ended 31 March 2016

LANGUAGE OPTIONS

If you would like this document in another language or format, or if you require the services of an interpreter, please contact us.

Ma tha sibh ag iarraidh an sgrìobhainn seo ann an cànan no riochd eile, no ma tha sibh a' feumachdainn seirbheis eadar, feuch gun leig sibh fios thugainn.

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यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको आनुवाद-सेवाओं की आवश्यकता हो तो हमसे संपर्क करें

本文件可以翻译为另一语文版本，或制作成另一格式，如有此需要，或需要传译员的协助，请与我们联系。

ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਇੰਟਰਪ੍ਰੈਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو برائے مہربانی ہم سے رابطہ کیجئے۔

Jeżeli chcieliby Państwo otrzymać ten dokument w innym języku lub w innym formacie albo jeżeli potrzebna jest pomoc tłumacza, to prosimy o kontakt z nami.

**Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
Argyll
PA31 8RT**

Tel: 01546 604220

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Management Commentary

1. INTRODUCTION

What is the Management Commentary?

This Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

Argyll and Bute: The Geography

Argyll and Bute is bounded by the urban areas of Helensburgh and Dunoon along the Clyde, Loch Lomond to the East, Mull of Kintyre to the south, Atlantic Islands to the west, and the Sound of Mull and Appin to the north. It covers an area of 691,000 hectares making it the second largest local authority area in Scotland. Our area has the third sparsest population density of the 32 Scottish local authority areas, with an average population density of just 13 persons per square kilometre.



Argyll and Bute has 23 inhabited islands (Census 2011) more than any other local authority in Scotland with around 17% of the population living on Islands (Census 2011). The area is also home to several long sea lochs, which bisect the landscape and along with the islands give Argyll and Bute a very long coastline and a higher level of reliance on ferries for travel. Almost 80% of the population live within one kilometre of the coast (Scottish Coastal Forum, 2002).

Argyll and Bute: Population and Demographics

The total population of Argyll and Bute is 88,166 based on the 2011 census. This compares to a total population for the area of 91,306 in the 2001 census, a reduction of 3.4%. Argyll and Bute was one of only 4 local authority areas to show a decrease in population. Future population projections suggest a reduction in total population of 7.2% from 2010 to 2035.

The population of Argyll and Bute has been declining, this decline is projected to continue and the population is also aging. These changes in population will have significant implications for the delivery of Council services now and into the future. The change in population has particular challenges in relation to the provision of care, the future sustainability of Argyll and Bute's workforce and the economic sustainability of the area.

Argyll and Bute: Key Challenges

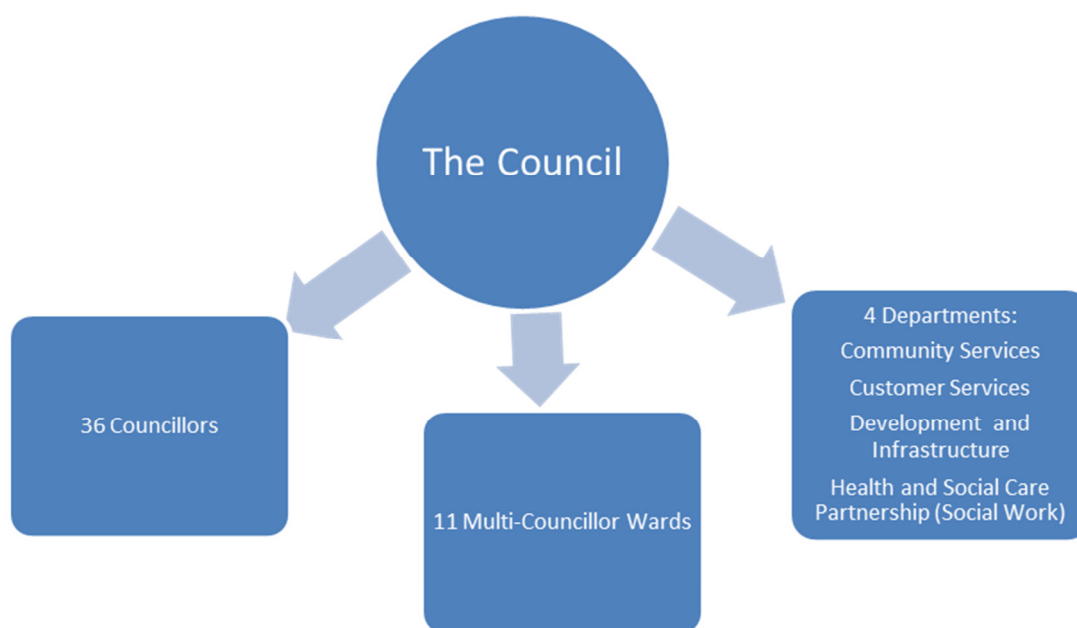
- Our geography – A highly rural area with many small communities, often separated by water. Access to the area and to key services is a perennial challenge.
- Reducing population – The projected decline in total population is a real threat to the viability of the area with a potential to adversely impact on the economy/wealth creation, workforce availability and efficient service delivery.
- Changing population – With more extremes than most of Scotland we face increasing costs and challenges to deliver services to older people and we need to encourage younger people to move to the area so that our economy can grow.
- Economy – Unlocking the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish and EU economies.

Management Commentary

- Employment – Developing education, skills and training to maximise opportunities for all and create a workforce to support economic growth.
- Infrastructure – Improving and making better use of infrastructure in order to promote the conditions for economic growth including enhancing the built environment and our town centres.
- Sustainability – Ensuring a sustainable future by protecting the natural environment and mitigating climate change.
- Health – Improving health and wellbeing and reducing health inequalities.
- Deprivation – Inequalities exist in Argyll and Bute so we need to improve how we identify and implement action to address them.
- People on the fringe – Many of our communities are very isolated and risk collapsing as population change takes affect alongside urban communities where deprivation can create real hardships.

Argyll and Bute Council

Argyll and Bute Council was established in 1996 as part of local government reorganisation in Scotland under the Local Government (Scotland) Act 1994.



The Council has thirty six councillors elected every five years to represent the interests of the local community. Argyll and Bute is split into 11 multi-councillor areas or wards. This means that for every ward there are at least 3 councillors that represent the area you live in.

The management of the Council is led by the Chief Executive, Cleland Sneddon. The operational structure is divided into the Chief Executive's Unit, four directorates: Community Services, Customer Services, Development and Infrastructure and Integration Services. From 1 April 2016, Adult Care and Children and Families Services transferred over to the Health Social Care Partnership and strategic decisions will be the responsibility of the Integrated Joint Board.

Management Commentary

Chief Executive's Unit	Community Services	Customer Services	Development and Infrastructure	Health and Social Care Partnership
<ul style="list-style-type: none"> Strategic Finance 	<ul style="list-style-type: none"> Education Community and Culture 	<ul style="list-style-type: none"> Governance and Law Customer and Support Services Improvement and Human Resources Facility Services 	<ul style="list-style-type: none"> Roads and Amenity Services Economic Development Planning and Regulatory Services 	<ul style="list-style-type: none"> Adult Care Children and Families Health Services

Annual Accounts 2015-16

The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2016. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The requirements governing the format and content of local authorities' annual accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2015-16 Accounts have been prepared in accordance with this Code.

2. OBJECTIVES AND STRATEGY OF THE COUNCIL

Community Plan and Single Outcome Agreement 2013-2023

Our geography, coupled with a declining population presents us with unique challenges and together with our community planning partners we have developed a Single Outcome Agreement (SOA), now referred to as the Local Outcome Improvement Plan (LOIP). The LOIP sets out the shared vision, priorities and objectives for Argyll and Bute over the next ten years.

Our shared vision is:

Argyll and Bute's Economic success is built on a growing population.

The vision has six key outcomes:



Management Commentary

The Community Plan and Single Outcome Agreement can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/council-and-government/community-plan-and-single-outcome-agreement>

Corporate Plan 2015-17

This corporate plan sets out what we as a council will contribute to achieving the outcomes within the Single Outcome Agreement. The period 2015-17 has brought, and will bring, challenges for us as we make choices around planning our future. We must accommodate a reducing budget, yet make the right choices to invest in our future. Our shared vision as set out in the SOA, corporate mission and strategic priorities provide us with clear direction and ensure that the Council is in a strong position to plan our future.

Our mission:

To make Argyll and Bute a place people choose to live, learn, work and do business.

Our Corporate Plan can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/performance-reporting-and-best-value>

Service Plans

Service Plans set out the key service delivery aims for the financial year and are aligned to the Corporate Plan and Single Outcome Agreement. The service plans also detail the agreed measures, targets and timescales to achieve the required results.

Our Service Plans can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/service-plans-overview>

Performance Reporting

We have a Planning and Performance Management Framework (PPMF) that ensures a focus on performance is integral to the work of the Council. The PPMF details the structure and process for performance management at all levels. Plans specify the outcomes to be achieved aligned to success measures, as well as risks to be reduced.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers.

At a strategic level performance is scrutinised through our Strategic Committees and more locally at our Area committees. The Performance Review and Scrutiny Committee, which meets four times a year has a key role in reviewing and scrutinising how we are meeting our strategic objectives.

Our Performance is reported through scorecards which are reviewed at team and service level as well as Council and Departmental level. These are reviewed at Council meetings and are available on the following web-link:

<https://www.argyll-bute.gov.uk/council-and-government/quarterly-performance-reports>.

The Council also produces an Annual Report which provides residents with a summary of progress being made. The Annual Report for 2015-16 will be produced later this year; however, the 2014-15 Annual Report is available on the following web-link:

https://www.argyll-bute.gov.uk/sites/default/files/annual_report_updated_january_2016_-_post_prs.pdf

Management Commentary

Budget Strategy

A report on the budget strategy for 2014-15 and 2015-16 was presented to Council on 28 November 2013. Taking account of the commitments in the SOA, challenging financial outlook and the current stability offered by the proposed flat cash finance settlement for 2014-15 and 2015-16 it was agreed to set a 1% savings target for services in each of the two years 2014-15 and 2015-16. This provided a degree of stability over these two years whilst the Council developed its approach to service prioritisation linking budget to strategic priorities, now referred to as Service Choices.

A further suite of reports entitled “Delivering on the Single Outcome Agreement” were presented to the Policy and Resources Committee on 18 December 2014. The suite of reports outlined a structured approach to managing the budget challenge. This included Service Choices in order to match budget to Member priorities as well as developing an approach to investment for economic growth and strategic infrastructure plan. In addition, the balance on the General Fund was earmarked to support the SOA, investment for income and to establish an investment fund that could borrow to take forward projects that would generate an income stream and support the economy.

Budget Monitoring

The Council has robust budget monitoring arrangements in place and a monitoring pack is prepared and presented to the Policy and Resources Committee every two months. The monitoring pack includes the following reports:

- Financial Monitoring Pack Summary – an executive summary.
- Revenue Budget Monitoring - this report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.
- Monitoring of Financial Risks - this report outlines the process and approach developed in carrying out a financial risks analysis and provides an update on the current assessment of financial risks.
- Capital Plan Monitoring – this report provides a summary of the current capital plan monitoring position. Information is provided in terms of monitoring year to date budget, current full year budget, future years total budget and funding and non-financial in terms of project performance.
- Treasury Monitoring - this report provides information on the current levels and recent transactions in relation to the capital financing limit, total borrowing, temporary borrowing and long term borrowing and investments.
- Reserves and Balances - this report summarises the overall level of reserves and balances and monitors the spending of the earmarked reserves, providing detailed information on the unspent budget earmarked balances.

Risk Strategy

The council has a risk management strategy in place that is subject to regular review and has been assessed as “embedded and integrated” as per CIPFA Benchmarking. Detailed guidance is in place which provides detail on the risk management framework including risk identification and risk treatment. Strategic and operational risks are reviewed on a regular basis and active mitigations are in place.

Management Commentary

There are 15 principal risks facing the Council reflected within the Strategic Risk Register as follows:

- Population and economic decline
- Condition and suitability of overall Council infrastructure and asset base.
- External built environment.
- Welfare reform
- Political leadership
- Finance – Income and Funding
- Finance - expenditure
- Health and Social Care Integration
- Reputation
- Demographic Changes
- Partnership Governance
- Engagement and alignment of service delivery
- Leadership and Management
- Civil contingency and business continuity
- Management of services and resources.

The Strategic Risk Register now includes Risk Appetite and Risk Tolerance thresholds. Two of the risks are currently showing a residual score in excess of agreed tolerance levels. These are Population and Economic Decline and Health and Social Care Integration. These risks are being actively managed and there is a focus and priority emphasis on these areas which includes prioritisation or redirection of resources, prioritisation of mitigations and defined action plans.

Financial risks are also considered as part of the budget process and medium term outlook and regularly reviewed as part of routine budget monitoring throughout the year. There are some Council wide financial risks in relation to shortfall on savings, employer's on-costs, energy costs and increase to general inflation. There are also a number of risks relevant to departments/services and mitigations are in place.

Treasury Strategy

The Council publishes an annual Treasury Management Strategy to coincide with the approval of the financial plans in February. This strategy links the Council's capital investment plans to its treasury management activities including borrowing and investment strategies.

3. PERFORMANCE AGAINST OUR PRIORITIES

The Planning and Performance Management Framework sets out the process for presentation of the council's quarterly performance reports. Performance is reviewed by the Strategic Committees and then the Council and departmental performance reports and scorecards are presented to the Policy, Review and Scrutiny Committee on a quarterly basis.

Below is a small selection of performance information for each priority that was presented during 2015-16. Further information will be contained in the Council's Annual Performance Report due to be published later in the year. This selection of information supports that performance has been improving in key priority areas despite the reduction in Council funding.

Management Commentary

Priority 1: The economy is diverse and thriving

- In the last quarter of 2015-16 the planning application approval rate above target (95%) for the 12th consecutive quarter at 97%.
- The average number of weeks to determine local planning applications at 10.3 weeks remains below the current 12 week target.
- The number of business taking up a growth grant opportunity is 33, which exceeded the target of 31.
- Procurement bids from local suppliers have increased from 23% in 2014-15 to 31% in 2015-16.

Priority 2: We have infrastructure that supports sustainable growth

- The total number of empty homes brought back into use in Argyll and Bute during 2015-16 was 73, above our target of 50.
- 873 bridge inspections were carried out over the year against a target of 843.
- 91.9% category 1 road defects were repaired on time in the last quarter of 2015-16. There have been 46% more category 1 defects in 2015-16 than the previous year, but despite this we have maintained a high performance above the target of 90% and significantly above the APSE benchmark of 88.25% all year.
- The percentage of premises within Argyll and Bute with access to 3G phone signal has increased from 28% at the end of 2014-15 to 38% at the end of 2015-16.

Priority 3: Education, skills and training maximises opportunities for all

- The number of adults achieving accredited learning outcomes through Community Based Adult Learning has increased from 539 in 2014-15 to 632 in 2015-16.
- The percentage of young people achieving a sustained positive destination at the end of 2015-16 was 93.1% reflecting the highest recorded figures.
- Overall 70% of leavers entered a positive destination post Activity Agreement, this matches target of 70%.
- The number of students accessing alternative qualifications has increased from 1,493 in 2014-15 to 1,535 in 2015-16.

Priority 4: Children and Young People have the best possible start

- The uptake of nutritional free school meals provided to eligible pupils has been maintained at over 86% against a benchmark of 75% (Scottish average uptake 2014/15 APSE benchmarking data).
- Out of 373 members of childcare staff, 360 are qualified for SSSC role or are working towards the qualification, 96.5% against a benchmark of 94%.
- Currently 93% of children on the Child Protection Register have no change of social worker.
- All schools have reviewed their anti-bullying policies during 2015-16.

Priority 5: People live active, healthier and independent lives

- No. of visits to Council run gyms has increased from 109,666 in 2014-15 to 115,227 in 2015-16.
- No. of visits to Council run pools has increased from 309,791 in 2014-15 to 319,206 in 2015-16.
- The number of older people receiving care in the community has been maintained at around 80% in 2015-16.

Management Commentary

- The number of enhanced telecare packages which play a key role in enabling people to remain safely in their own homes and communities has increased from 460 in 2014-15 to 513 in 2015-16.

Priority 6: People live in safer and stronger communities

- The percentage of building warrants responded to within 20 days is 89.7% against a target of 80%.
- Percentage of compliance with the shellfish monitoring contract: 98.5%, which exceeds the target.
- Percentage of high risk food inspections within due date: 92.5% achieved and all premises were visited in 2015-16 as planned.

4. FINANCIAL PERFORMANCE 2015-16

Revenue and Capital Expenditure

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on recurring day to day costs associated with providing the Council's services (e.g. salaries, supplies) is revenue, whereas spending on assets (e.g. buildings) that have a useful value to the Council over multiple years is referred to as capital. The financing of revenue and capital expenditure, in general, comes from different sources.

Annual Budget and Setting of Council Tax for 2015-16

The Council set a two year revenue budget in February 2014 which set the budget for 2014-15 and 2015-16. The budget assumptions were revised and an updated 2015-16 budget was approved at Council in February 2015. The budget for 2015-16 was based on the Council Tax for Band D remaining at £1,178 for the eighth successive year. For 2015-16, a surplus of £0.154m was planned after taking account of government grants, inflation, borrowing costs and efficiency savings.

The Council approved a £118m capital programme covering the years 2015-16 to 2019-20 in April 2015. The capital programme was based on assumptions on the level of General Capital Grant from the Scottish Government and the likely capital receipts over the period. The major capital projects included in the programme were CHORD, the replacement of Campbeltown Grammar School, Oban High School and Kirn Primary School and the refurbishment of Dunoon Primary Schools, the replacement of Helensburgh Pool, Helensburgh Flood Defences, the new Helensburgh Office and asset sustainability projects in respect of Roads Reconstruction and Property Refurbishment.

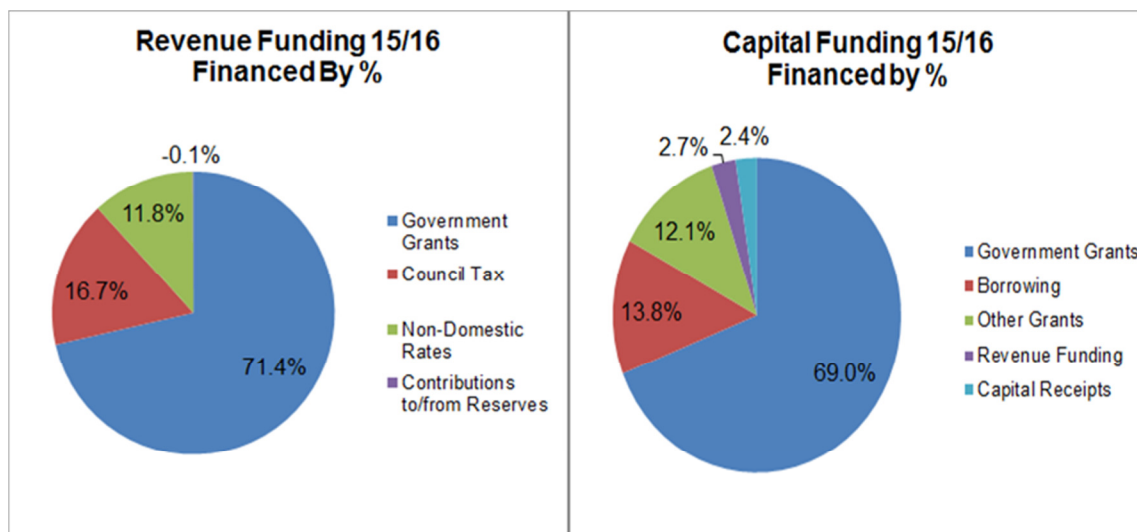
2015-16 Available Budget

The resources available are categorised into revenue and capital expenditure. The financing of these generally come from different sources.

The funding at the beginning of financial year 2015-16 for revenue expenditure was £244.4m. This was funded from government grants (£174.7m), Council Tax (£40.9m) and Non-domestic rates (£28.8m). The Council agreed to transfer £0.154m back to the General Fund balance in 2015-16.

The available budget for capital expenditure is £27.4m and is funded government grants (£18.9m), borrowing (£3.8m), grants from other organisations (£3.3m) contributions from revenue (£0.7m), and receipts from sale of assets (£0.7m).

Management Commentary



Revenue: Outturn against Budget

The performance against budget for financial year 2015-16 was an overall underspend of £2.134m (0.84%), after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net overspend of £0.074m in relation to departmental expenditure and a net underspend of £1.725m in relation to other central/non-departmental costs. The remainder of the underspend of £0.483m is in relation to funding and the over-recovery of Council Tax income. A summary of the final outturn position is noted within the table below:

Final Outturn Variance (Un-audited)				
2015-16				
Department	Actuals	Budget	Variance	
		Adjusted for Earmarking	(Overspend) Underspend	% age
	£	£	£	
Chief Executive's Unit	2,166,866	2,169,953	3,087	0.14%
Community Services	84,255,041	84,692,627	437,586	0.52%
Customer Services	33,220,057	33,253,215	33,159	0.10%
Development and Infrastructure Services	57,769,324	57,005,844	(763,480)	-1.34%
Integrated Services	37,895,604	38,110,876	215,272	0.56%
Total Dept Controllable Expenditure	215,306,892	215,232,515	(74,377)	-0.03%
Joint Boards	1,345,998	1,351,980	5,982	0.44%
Loans Charges	20,001,921	21,373,436	1,371,515	6.42%
Pension Costs	2,983,857	1,904,249	(1,079,608)	-56.69%
Other	1,924,036	3,351,450	1,427,414	42.59%
Total Central/Non Dept Expenditure	26,255,812	27,981,115	1,725,304	6.17%
Total Expenditure	241,562,703	243,213,630	1,650,927	0.68%
Total Funding	254,088,300	253,605,550	482,750	0.19%
UNDERSPEND			2,133,677	

Management Commentary

Capital: Outturn against Budget

Expenditure for the full financial year is £24.185m compared to a capital budget of £27.415m giving rise to an underspend for the year of £3.230m. The underspend is as a result of net slippage of projects between financial years, with a significant element being in respect of the replacement of Campbeltown Grammar School, Dunoon Primary School, Kirn Primary School and Oban High School.

The new Helensburgh Office was occupied by staff during 2015-16 and the refurbishment of the Rothesay Pavilion started on site during the year. The new schools projects for the replacement of Campbeltown Grammar School, Oban High School and Kirn Primary School reached financial close which enables the projects to proceed.

In terms of project performance 80% were completed on time and within budget tolerances.

Comprehensive Income and Expenditure Account

The comprehensive income and expenditure account shows the accounting cost of providing services rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2015-16 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2015.

Still to complete:

Section with table comparing the net cost of services to the revenue budget outturn position.

Balance Sheet

The balance sheet summaries the Council's assets as at 31 March 2016 and it is accompanied by explanatory notes. The net worth of the Council has increased to £203.091m compared to a net worth at 31 March 2015 of £160.957m. The main reason for this increase relates to the reduction in the pension liability as a result of an increase in the net discount rate over the period. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future.

Long Term Assets: total Long Term Assets includes property, plant and equipment as well as other intangible assets. They have reduced by £20.955m from £527.060m as at 31 March 2015 to £506.105m as at 31 March 2016. The main reason for the decrease is due to the downward revaluation of Oban High School, Campbeltown Grammar School and Kirn Primary School to reflect the reduction in the useful life of the asset as these schools are due to be replaced by new schools.

Current Assets: total Current Assets has decreased from £71.119m as at 31 March 2015 to £64.036m at 31 March 2016. The main reason for this decrease relates to the amount of cash that was held at the year-end due to external debt having been repaid and not replaced.

Current Liabilities: total current liabilities have decreased from £72.740m as at 31 March 2015 to £55.096m as at 31 March 2016. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year.

Further details on the current provisions are noted later within the commentary.

Long Term Liabilities: total long term liabilities have decreased by £52.528m from £364.482m as at 31 March 2015 to £311.954m as at 31 March 2016. The main reason for this reduction relates to the pension liability which has reduced by £50.297m. Further detail on the pension liability is noted later within the commentary.

Management Commentary

Statement of Movement in Reserves

This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

The balance of usable reserves has increased by £6.409m from £50.478m as at 31 March 2015 to £56.887m as at 31 March 2016. This is mainly as a result of the increase to the General Fund Balance of £6.422m in addition to an increase in the Capital Fund which is outlined in Note 30.1 on [page x](#).

In respect of the General Fund Balance movement, there were £6.518m of earmarked reserves released to services and spent during 2015-16 and supplementary estimates of £0.039m drawn down for the Waverley and Hebridean Air Services. The contributions to earmarked reserves amount to £10.391m and there was a budgeted contribution of £0.154m agreed as part of the 2015-16 budget. The overall underspend on the revenue budget amounted to £2.134m which is transferred to the General Fund balance. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

	£000
Balance on General Fund 31 March 2015	46,067
Released sums earmarked to service budgets 2015-16	(6,518)
Supplementary Estimates agreed during 2015-16	(39)
Contributions to earmarked reserves 2015-16	10,391
Budgeted contribution to General Fund 2015-16	154
Overall budget underspend as above	2,134
Balance on General Fund 31 March 2016	52,189

The balance of unusable reserves has increased by £35.725m from £110.479m as at 31 March 2015 to £146.204m as at 31 March 2016. The main reasons for this increase relates to the reduction in the pension fund reserve which matches the pensions liability, offset by the downward revaluation of the schools as noted above (under Long Term Assets) which is charged to the capital adjustment account.

Provisions

The Council has provisions totalling £3.865m on the balance sheet, noted as follows:

- £0.077m Equal Pay Claims. A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. There may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- £0.148m cash not yet collected, due to be paid to registered social landlords. The Council reduced the discount on council tax from second homes to 10% during 2005-06 and this provision relates to the cash not yet collected within 2015-16.
- £1.018m redundancy costs. Liabilities have arisen in respect of employees who will be made redundant as a result of restructuring and also as part of the Service Choices process. The costs for any employee, whose contract has been terminated on or before 31 March 2016, has been incurred in year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2016, a provision has been created.

Management Commentary

- £1.042m landfill sites. A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. These have been provided for based on the net present value of estimated future costs.
- £0.510m Utilities. The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.089m has been utilised during 2015-16 reducing the provision to £0.510m.
- £0.320m VAT Liability. The provision was created to reflect the potential liability the Council faces from the over claiming of VAT on staff mileage for the period 2012 to 2016 which will require to be repaid to HMRC.
- £0.750m other provisions. These include funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2016-17.

Pension Liability

The Council is required to account for its share of the Strathclyde Pension Fund assets and liabilities. The information included in the Accounts is provided by the Pension Fund actuaries following the annual valuation of the Fund. The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2016.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

The pension liability can fluctuate significantly year on year. The table below shows the pension liability over the last three years.

	2015-16 £'m	2014-15 £'m	2013-14 £'m
<i>Pension Liability</i>	94,441	144,738	118,337

Most of the changes each year can be attributed to the change in financial and demographic assumptions. In 2014-15 there was an increase in liabilities which was partially offset by an increase in the return on assets. The following table shows the movement in financial assumptions over the last three years:

	2015-16 %	2014-15 %	2013-14 %
<i>Rate of Inflation</i>	2.2%	2.4%	2.8%
<i>Rate of Increase in Salaries</i>	4.2%	4.3%	5.1%
<i>Rate of Increase in Pensions</i>	2.2%	2.4%	2.8%
<i>Rate for Discounting Scheme Liabilities</i>	3.5%	3.2%	4.3%

Management Commentary

Of the four financial assumptions above, the change in discount rate has the most significant financial impact on the pension liability. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability.

The change in financial assumptions added £62.3m onto the liability in March 2015, mainly because the discount rate decreased. Changes in demographics added a further £15m on to the liability but this was offset by an increase in the return on assets of £25.8m and a fall in obligations of £33.9m in relation to "Other Experience".

At 31 March 2016 the change in financial assumptions (discount rate increased to 3.5%) meant that the liability reduced by £55.8m, "Other Experience" further reduced the liability by £8.4m, there was a loss on return on assets of £3m. Therefore the above "re-measurements" total £61.2m which are the main reason for the decrease in the Net Pension Liability position at 31 March 2016.

General Fund Balance

The General Fund Balance includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances were due to be spent during 2015-16 and some of them will be held over and spent in later years. The Council has agreed a policy where balances will automatically be carried forward in respect of Strategic Housing Fund, CHORD, balances unspent with the Devolved Management of Resources Scheme of Delegation for schools, unspent grants and unspent contributions from external bodies and any unspent budget that relates to existing policy commitments arising from a previous Council decision or where they are required to meet an existing legal commitment.

Outwith the situations noted above there will be no automatic carry forward of unspent budget and any request for carry forward will be reported to Council for approval and supported by a business case. There are 14 new unspent budget earmarked proposals for consideration:

- Strategic Finance Initiatives - £0.058
- Written in the Landscape Project - £0.030m
- Education grant funding carry forwards (Developing the Young Workforce, GIRFEC, Langauges 1+2) - £0.307m
- National Improvement Framework Literacy and Numeracy - £0.103m
- Case Management and Time Recording System - £0.035
- Campbeltown Office Rationalisation - £0.060m
- Pathfinder North - £0.100m
- Local Elections 2017 - £0.300m
- Modern Apprentices and Growing our Own - £0.226m
- Leadership Development - £0.050m
- Waste Management Model - £0.130m
- Development Policy - £0.022m
- Winter Maintenance (April 2016) - £0.200m
- Transformation Project Management - £0.100m

The General Fund balance at 31 March 2015 was £46.067m, of this a total of £30.193m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2016 amounts to £42.522m and Note 5 on [page x](#) provides further detail of the movement.

Management Commentary

The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2016-17. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance after the 2% contingency amounts to £4.924m.

Borrowing

The Council was under borrowed at the yearend by £19.132m compared with £3.418m at 31 March 2015 the increase in the under borrowed position is due to the repayment of external loans of £32.255m offset by new borrowing of £16.541m. This reduction in external debt is in line with the Council's borrowing Strategy which is to minimise the cost of borrowing and keep to a minimum the Council's cash balances. The only long term borrowing under taken during the year was a £9.500m loan from the Public Works Loans Board at the discounted Project Finance Rate which was made available by the Scottish Government. The balance is short term borrowing over the yearend to provide cash flow cover; this borrowing has subsequently been repaid.

Capital Finance

The resources to fund the Council's capital plan comes from a number of sources, there are grants from the Scottish Government and other bodies, capital receipts from the disposal of assets, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and in respect of the replacement schools revenue funding from the Scottish Futures Trust. During 2016-16 the funding of the new schools project changed as a result of ESA 10 a direct capital contribution from the Council towards these projects was no longer allowed under accounting rules which resulted in a balances which had been earmarked in the General Fund being released back to the General Fund and a compensating increase in the unitary charge in respect of the schools.

Group Accounts

Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

In addition, the Council's Common Good Funds have been fully consolidated into the Group Accounts, Note 34 on [page X](#) gives further details on the Council's Common Good Funds.

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £7.783m. This gives an overall net asset position for the Group of £210.874m, an increase of £43.140m over the previous financial year. As with the single entity Balance Sheet, the increase is mainly due to the decrease in the Pension Liability.

5. KEY FINANCIAL INDICATORS

Still to be completed

The following financial indicators have been developed to assist the reader in assessing the performance by the Council over the last financial year and the affordability of its ongoing commitments.

Financial Indicator	2015-16	2014-15	Comment
Reserves			
Unallocated General Fund Balance as a proportion of Annual Budgeted Net Expenditure	2.00%	1.50% 6.56% (Unallocated and contingency)	Reflects the level of funding available to manage financial risk/unplanned expenditure. The Council has agreed to keep a 2% contingency.
Movement in the Unallocated General Fund Balance		£2.03m	Reflects the extent to which the Council is using its Unallocated General Fund Balance.
Council Tax			
In-year collection rate	95.97%	95.51%	Reflects the Council's effectiveness in collecting Council Tax debt.
Ratio of Council Tax Income to Overall Level of Funding	16.75%	16.70%	Reflects the capacity of the Council to vary expenditure by raising Council Tax income. Argyll and Bute Council, in common with other local authorities has frozen Council Tax at 2008-2008 levels.
Financial Management			
Actual Outturn compared to budgeted expenditure		£2.072m 0.82%	A measure of how the final outturn compares to the budgeted position and is a reflection of the effectiveness of financial management.
Actual contribution to/from Unallocated General Fund Balance compared to budget.		£1.38m 135.3%	Shows the extent to which the Council has decreased / (increased) its unallocated General Fund Balance.
Debt/Long-term Borrowing			
Capital Financing Requirement (CFR) for the current year		£257.556m	Measurement of requirement to borrow for capital purposes.
External Debt Levels for the current year		£173.378m	Actual borrowing for capital investment levels.
Ratio of financing costs to net revenue stream		10.98%	Measures the percentage of income that has been committed towards meeting the costs of borrowing. The more income needed to fund financing costs the less available to meet other revenue expenditure.

6. PLANS FOR THE FUTURE

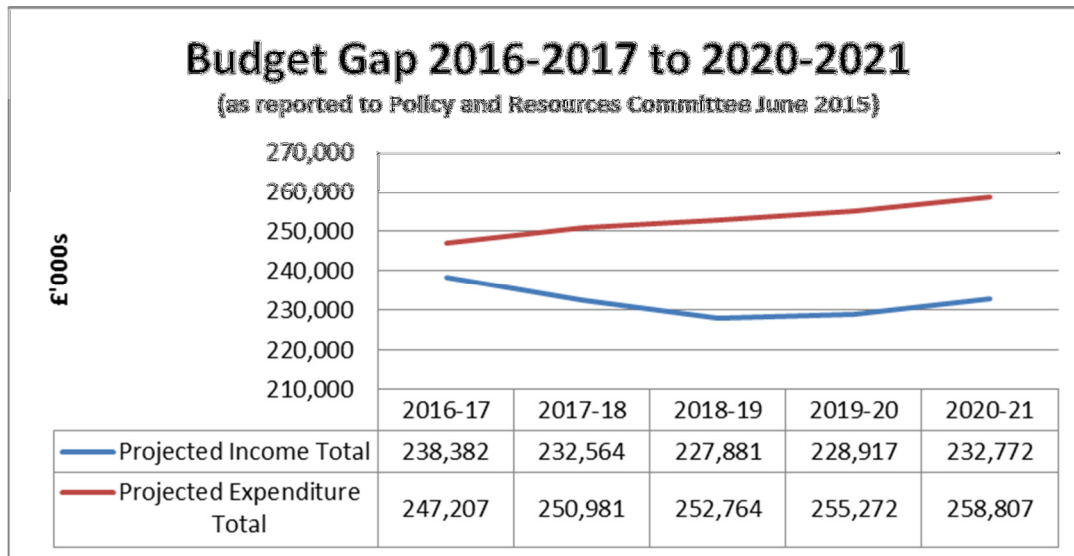
2016-17 Budget and Medium Term Financial Outlook

Creating a financial outlook is challenging as a number of assumptions need to be made anticipating changes to the base budget in relation to employee costs, non-pay inflation, cost and demand pressures and fees and charges as well as assumptions on the Council's funding position. When forecasting the funding there are a number of variables to consider including the overall level of public sector budgets, the amount the Scottish Government decides to allocate to fund Local Government, the impact of population reductions on Argyll and Bute and scope for any future Council Tax increases.

A financial outlook was presented to the Policy and Resources Committee on 22 June 2015 covering the 5 year period 2016-17 to 2020-21. The budget gap was estimated to be between £21.7m and

Management Commentary

£26.0m by year 5, with a gap of around £9m in 2016-17. The worst case budget gap is shown in the graph below.



One of the elements of the budget strategy agreed in December 2014 was Service Choices. Service Choices was an approach to plan for the estimated funding reductions by aligning the available budget to Members priorities. During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17.

In common with other local authorities across Scotland, the level of reduction to the Council's revenue funding allocation for 2016-17 was higher than anticipated, however, our Council was well placed to deliver a balanced budget due to the options offered through Service Choices, in addition to the management and operational savings which had minimal impact on front line services.

The Council set a one year revenue budget for 2016-17 and a four year capital plan which focused on protecting core services and jobs, delivering what people want and building prosperity within the area. The budget has put us in a position to invest in creating economic growth. The package of measures agreed included an investment, from our financial reserves and capital funding, of some £75 million designed to attract more people to live and work here, securing employment and prosperity for our area.

Service Choices savings options were agreed not only for 2016-17 but for 2017-18 and beyond to allow for preparation time for some saving options where significant redesign of services is required to deliver the longer term savings.

A new Scottish Government is now in place effective from May 2016. There is a full Spending Review later this year covering the period 2017-18 to 2019-20 with the expectation that the Council will be advised of its funding over the next three years. The Council are currently updating their medium term financial outlook taking into consideration recent announcements, including:

- On 2 March 2016, the First Minister announced that an additional £100m each year will be invested in schools across Scotland as a result of a package of reforms to Council Tax. The rates paid by those in the four highest council tax bands (E, F, G and H) will be adjusted in a move that will generate £100m per year. The additional revenue will be invested in schools through future local government settlements. It is estimated that the change to the bandings would generate additional income of around £2.4m.
- The First Minister also announced that from April 2017 the Council Tax freeze will be replaced with discretion for local authorities to increase Council Tax by a maximum of 3% per year which could generate up to £70m for council services across the country. In addition to this extra revenue,

Management Commentary

local authorities will also retain the £70m per year that has funded the Council Tax freeze. It is estimated that an additional 3% would generate additional income of around £1.2m.

It should be noted that the position in 2018-19 and 2019-20 is worse than originally anticipated last year as it was expected that the funding situation would improve, however, from the UK Budget 2016 it is clear that austerity is going to be with us for the next five years, with significant additional spending cuts required in later years.

The future service choices savings already agreed by Members, the significant investments agreed as part of the budget in February 2016 to support the economy and deliver additional income streams as well as the transformation work that the council is committed and is continuing to pursue, prepare the Council for the financial challenges ahead.

Health and Social Care Integration

The Argyll and Bute Integrated Joint Board (IJB) with responsibility for social work and a range of health services was established and came into effect on 1 April 2016. The IJB will be responsible for financial and strategic oversight of these services. Significant activity has taken place during 2015-16 in preparation for this transfer, including the establishment of an Integration Scheme which sets out the terms and conditions of the integration and the relationship between the Council, the Health Board and the Partnership and the development of a three year Strategic Plan which sets out the services which will be provided by the Partnership. The financial position of the IJB will be closely monitored during 2016-17.

Argyll, Lomond and the Islands Regeneration Initiative

On the 11 February 2016, the Council agreed to establish the new flagship “Argyll, Lomond and the Islands Regeneration Initiative” which will encompass all existing and new strategies and plans relating to population and economic growth into a single and cohesive programme to ensure focus in supporting the Single Outcome Agreement’s overarching vision to build the economy through a growing population. Three new investments were agreed as part of this Initiative: Inward Investment Fund, the Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund.

The Council agreed to allocate £1m towards the new Inward Investment Fund to promote economic growth in Argyll and Bute through attracting significant inward investment to the area. It is proposed that the fund is focused on a smaller number of larger strategic investments that have real transformational opportunity. Criteria are currently being developed to qualify for this fund e.g. creates jobs, aligned with council objectives etc.

The Council agreed to allocate £500,000 toward the new Rural Resettlement Fund which is intended to be focused on people. This fund will seek to either incentivise people to settle in Argyll and Bute or create/promote opportunities to do so. This may include businesses where individuals are prepared to move to Argyll and Bute to start up or relocate their business. The specific objective of this fund is growing our population with the benefits of creating economic activity and increasing the Council’s Grant Aided Expenditure.

The Council agreed to award £3m towards the Lochgilphead and Tarbert Regeneration Fund that will build on the regeneration work in Campbeltown and it is deemed that the main objective of this fund is to promote the regeneration and/or economic development of the **Mid Argyll and North Kintyre areas.**
Check – is this what was agreed?

Transformation Work

In order to deliver high quality services and to work towards achieving its aims, the council is committed to driving forward change through innovation. The Council has previously demonstrated that it is able to work in innovate ways in order to improve service delivery, make savings or generate income and examples include, workforce deployment project, customer management project, empty homes policy, children and families redesign, investment in hub co sub debt amongst others.

Management Commentary

However, the council has recognised that it is required to further develop and implement innovative ways to deliver services and generate income.

On the 8 October 2015, the Council agreed to create a £100,000 innovation fund to provide support to services in developing business cases in regard to innovative ideas that are considered to be feasible for development as projects to deliver innovation, income generation, efficiencies and wider benefit to the communities of Argyll and Bute and growth in the economy and population. A number of ideas have already been generated from staff and as part of the budget consultation we received a positive response from the public with their ideas to improve services.

On the 11 February 2016, the Council created a £2m Asset Management and Investment Fund which will generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.

Tax Incremental Finance (TIF) Scheme

The Council entered into an agreement with the Scottish Government in May 2014 in respect of the Lorn Arc TIF scheme. This agreement essentially allows for the repayment of debt arising from infrastructure investment from incremental Non-Domestic Rates (NDR) revenue. The assets to be funded by the TIF project largely comprise public realm and infrastructure improvements within the Lorn Arc area of Oban and the project is over the next 25 years. During the TIF project period, the Council is entitled to retain the TIF revenue from its NDR revenue, a pro-rata amount of NDR equal to the amount (if any) by which the collected amount exceeds the collectable amount. The Council is required to apply 100% of the TIF revenue towards repayment of the TIF debt. Following repayment in full, and until the end of the project period, the Council is entitled to retain 50% of the TIF revenue for further infrastructure investment.

The TIF project achieved material start in September 2015 with work commencing on the enabling works for the Oban Airport Business Park.

The original business case covered nine projects totalling £18.89m. This included two projects at Barcaldine (£4.15m) which were removed by agreement with Policy and Resources Committee 17 March 2016 and TIF Executive 19 April 2016. The right to explore replacement projects has been retained subject to presentation of a business case to TIF executive, approval of Scottish Government and overall affordability within the programme financial model.

The remaining seven projects which total £14.74m are covered by the following four key areas:

- Dunbeg Corridor (£4.95m) - partnership arrangements are being explored.
- Oban South (£3.00m) – a scoping exercise is ongoing for potential projects.
- North Pier (£6.20m) – is at concept design stage with geotechnical survey work undertaken to inform the concepts.
- Oban Airport Business Park (£0.59m) – masterplan exercise is ongoing and provision of utilities being explored.

Business Improvement District (BID)

A Business Improvement District (BID) is a partnership between a local authority and the local business community to develop projects and services that will benefit the trading environment within the boundary of a clearly defined commercial area, where businesses have voted to invest collectively in local improvements which will benefit the local economy. BIDs should not be seen as a substitute for central and local government investment, but rather an additional investment to strengthen an area's economic outlook with the aim of increasing returns to those businesses that are paying for the improvements on a basis agreed by them. BIDs are developed, managed and paid for by the business sector through an additional levy calculated on the non-domestic rates valuation. The

Management Commentary

Council has two BIDS in Oban and Dunoon. Further information can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/council-and-government/business-improvement-districts>

7. CONCLUSION

The Council has continued to demonstrate sound financial management in 2015-16 by delivering services within the resources available. The operating environment going forward remains very challenging from the combined effect of reduced resources and increasing demand and expectation for our services. The council, despite these challenges, remains financially sound and are well placed to deliver services to the people of Argyll and Bute in the future.

8. ACKNOWLEDGEMENTS

We would take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record our thanks to both Elected Members and staff for their continued hard work and support.

Cllr Dick Walsh
Leader

Cleland Sneddon
Chief Executive

Kirsty Flanagan
Head of Strategic Finance

Statement of Responsibilities for the Annual Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing the Annual Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation:
- complied with the Local Authority Accounting Code of Practice 2015-16 (in so far as it is compatible with legislation).

The Head of Strategic Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2016.

Kirsty Flanagan

Head of Strategic Finance

30 June 2016

The Remuneration Report

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. All information disclosed in the tables in this Remuneration Report has been audited by Audit Scotland. All other sections within the Remuneration Report have been reviewed by Audit Scotland to ensure it is consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183), further amended by Regulations 2013 (SSI No 2013/351). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2015-16 the salary for the Leader of Argyll and Bute Council is £33,454. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £25,090 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.284m. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay a salary of £23,697 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,757.

In 2015-16 Argyll and Bute Council had 10 senior councillors in the administration (excluding the Provost and the Leader). The total salary remuneration for senior councillors during 2015-16 was £0.231m. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements as well as local decisions on management structures and their associated remuneration levels. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services (Chief Officials) sets the salary levels for the Chief Executives of Scottish Local Authorities and also sets out the spinal column salary points for Chief Officers which local authorities can utilise in setting the salary levels for posts within their authority. Circular CO/146 sets the amount of salary for the Chief Executive of Argyll and Bute Council for 2015-16.

The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and (SCP) 29 for Heads of Service.

COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

Members Allowances	2015-16 Actual £'000	2014-15 Actual £'000
Basic Councillor Salaries	392	351
Leader and Provost's Salary	58	58
Senior Councillor Salaries	231	272
Other Expenses and Allowances paid to Members	135	139
Total Allowances	816	820

The annual return of councillors' salaries and expenses for 2015-16 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

SENIOR COUNCILLORS' REMUNERATION

Additional disclosures are required for senior councillors' remuneration. Senior councillors' remuneration is in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 which for the purpose of remuneration, grades Councillors as either the Leader of the Council, The Civic Head (Provost), senior councillors or councillors. Details of senior councillors' remuneration are as follows:

Senior Members	Responsibility	2015-16				2014-15
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Len Scoullar	Provost and Lead Councillor for Island Affairs	25,069	550		25,619	24,834
Councillor Dick Walsh	Leader, Lead Councillor for Strategic Finance, (IT Services, Improvement, HR and Customer Support, Facility Services, Governance and Law)	33,426	2,161	-	35,587	32,960
Councillor David Kinniburgh	Depute Provost from 21/01/16, Chair of Planning, Protective Services and Licensing Committee, additional responsibility for Planning Services, Historic and sustainable Environment from 23/04/15.	23,677	-	-	23,677	23,623
Councillor Ellen Morton	Depute Leader, Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects	23,677	-	-	23,677	23,623
Councillor Aileen Morton	Lead Councillor for Sustainable Economic Growth from 23/04/15, Lead Councillor for Education, Lifelong Learning and Strategic IT Services to 23/04/15	23,677	294	-	23,971	23,623
Councillor Robin Currie	Lead Councillor for Community & Culture and Strategic Housing (responsible for Gaelic from 23/04/15)	23,677	289	-	23,966	24,162
Councillor Alistair MacDougall	Lead Councillor for Strategic Transportation from 23/04/15, Lead Councillor for Gaelic (from 28/09/14 to 23/04/15)	23,687	-	-	23,687	21,539

Senior Members	Responsibility	2015-16				2014-15
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Rory Colville	Lead Councillor for Education and Lifelong Learning (From 23/04/16), Chair of Mid Argyll, Kintyre and the Islands Area Committee	23,250	14	-	23,264	19,711
Councillor Mary Jean Devon	Lead Councillor for Health and Social Care Integration (from 23/04/15 to 05/01/16), Lead Councillor for Children and Families to 23/04/15	19,555	-	-	19,555	23,662
Councillor Maurice Corry	Lead Councillor for Health and Social Care Integration from 21/01/16	3,892			3,892	-
Councillor Roddy McCuish	Chair of Oban, Lorn and the Isles Area Committee	19,741	-	-	19,741	6,924
Councillor Robert E MacIntyre	Chair of Bute and Cowal Area Committee	19,741	-	-	19,741	19,735
Councillor Gary Mulvaney	Chair of Helensburgh and Lomond Area Committee	19,741	-	-	19,741	19,711
Councillor Douglas Philand	Depute Provost to 21/01/16, Lead Councillor for Adult Care to 23/04/15	3,464	-	-	3,464	23,646
Councillor Duncan MacIntyre	Lead Councillor for European Affairs, Sustainable Economic Growth and Strategic Transportation to 23/04/15	3,464	-	-	3,464	23,605
Councillor Vivien Dance	Lead Councillor for Sustainable Environment, Renewables and Strategic Tourism to 08/01/15	-	-	-	-	19,271

The Remuneration Report

EMPLOYEES' REMUNERATION

The Regulations require that local authorities provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made to the employee in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, that was £50,000 or more in bands of £5,000 was:

Range £	2015-16 Number of Officers	2014-15 Number of Officers
£50,000 - £54,999	68	46
£55,000 - £59,999	12	14
£60,000 - £64,999	8	4
£65,000 - £69,999	2	4
£70,000 - £74,999	13	9
£75,000 - £79,999	-	1
£80,000 - £84,999	2	3
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1
£95,000 - £99,999	2	2
£100,000 - £104,999	1	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	1	1
Total	109	85

The Remuneration Report

SENIOR EMPLOYEES' REMUNERATION

The table below provides details of the remuneration paid to the Council's Senior Employees (defined by the regulations) as those forming part of the Council's senior management team, or holding certain statutory posts and any additional employee whose salary is over £150,000.

In 2015-16 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2015-16 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Compensation for Loss of Office £	Taxable Expenses £	Total Remuneration 2015-16 £	Total Remuneration 2014-15 £
Chief Executive - Sally Loudon	121,339	-	2,191	123,530	123,583
Executive Director of Community Services - Cleland Sneddon	95,989	-	4,270	100,259	98,607
Executive Director of Customer Services - Douglas Hendry	96,986	-	718	97,704	96,000
Executive Director of Development and Infrastructure Services - Pippa Milne	96,666	-	259	96,925	92,907
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan (from 1-10-15) <i>(Full year equivalent)</i>	32,884 71,012	- -	262 -	33,146 71,012	- -
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West (to 15-2-15) <i>(Full year equivalent)</i>	- -	- -	- -	- -	65,742 (71,011)
Head of Children and Families (Section 3 Social Work Officer) - Louise Long (from 15-7-15) <i>(Full year equivalent)</i>	48,468 71,012	- -	424 -	48,892 71,012	- -
Head of Adult Care (Section 3 Social Work Officer) - James Robb (to 14-7-15) <i>(Full year equivalent)</i>	23,368 71,012	40,228 -	- -	63,596 71,012	71,011 -

The Chief Executive's salary of £121,339 in 2015-16 included £4,189 of remuneration for acting as Returning Officer during 2015-16.

During 2015-16 James Robb, Head of Adult Care and the Council's Section 3 Social Work Officer, left the organisation and the responsibility of Section 3 Social Work Officer was transferred to Louise Long, Head of Children and Families.

During 2015-16, Kirsty Flanagan was appointed to the role of Head of Strategic Finance (effective 1 October 2015).

From 1 April 2014, Pippa Milne was appointed to the role of Executive Director of Development and Infrastructure Services. During 2014-15, Bruce West, Head of Strategic Finance and Section 95 Financial Officer left the organisation.

Steve Barrett acted as Interim Head of Strategic Finance from 16 February 2015 to 30 September 2015; he was employed by CIPFA Business Ltd and PENNA PLC. In 2015-16 the Council paid £65,360 (2014-15 - £18,240) to CIPFA Business Ltd and PENNA PLC in respect of this post.

PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2015-16 are as follows:

Whole time pay	Contribution Rate 2015-16
On earnings up to and including £20,335	5.50%
On earnings above £20,335 and up to £24,853	7.25%
On earnings above £24,853 and up to £34,096	8.50%
On earnings above £34,096 and up to £45,393	9.50%
On earnings above £45,393	12.00%

If a person works part-time their contribution is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

The Remuneration Report

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2016 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2016 £	For year to 31 March 2015 £		As at 31 March 2016 £	Difference from 31 March 2015 £
Councillor Roddy McCuish	3,811	3,508	Pension	2,960	(142)
			<i>Lump Sum</i>	1,480	(168)
Councillor Maurice Corry	3,440	-	Pension	1,258	466
			<i>Lump Sum</i>	-	-
Councillor Mary Jean Devon	4,314	4,567	Pension	2,933	534
			<i>Lump Sum</i>	1,434	45
Councillor David Kinniburgh	4,572	4,559	Pension	2,918	586
			<i>Lump Sum</i>	1,409	59
Councillor Ellen Morton	4,572	4,559	Pension	3,183	557
			<i>Lump Sum</i>	1,563	43
Councillor Rory Colville	4,489	3,804	Pension	3,007	566
			<i>Lump Sum</i>	1,465	52
Councillor Robin Currie	4,572	4,561	Pension	2,879	559
			<i>Lump Sum</i>	769	24
Councillor Aileen Morton	4,572	4,559	Pension	1,497	545
			<i>Lump Sum</i>	-	-
Councillor Gary Mulvaney	3,811	3,804	Pension	2,707	459
			<i>Lump Sum</i>	1,334	33
Councillor Vivien Dance	3,227	4,390	Pension	2,745	339
			<i>Lump Sum</i>	1,393	-

Councillors Len Scouller, Dick Walsh, Douglas Philand, Duncan MacIntyre, Robert E McIntyre and Alistair MacDougall are not members of Strathclyde Pension Fund.

The Remuneration Report

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2016 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2016 £	For year to 31 March 2015 £		As at 31 March 2016 £	Difference from 31 March 2015 £
Chief Executive - Sally Loudon	23,233	23,038	Pension	38,777	2,025
			<i>Lump Sum</i>	74,049	(735)
Executive Director of Community Services - Cleland Sneddon	18,498	18,257	Pension	34,410	2,396
			<i>Lump Sum</i>	68,593	930
Executive Director of Customer Services - Douglas Hendry	18,498	18,257	Pension	43,600	2,521
			<i>Lump Sum</i>	96,167	1,310
Executive Director of Development and Infrastructure Services - Pippa Milne	18,498	17,679	Pension	37,695	2,482
			<i>Lump Sum</i>	78,451	1,159
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan (from 1-10-15)	11,512	-	Pension	15,161	-
			<i>Lump Sum</i>	20,530	-
Head of Children and Families (Section 3 Social Work Officer) - Louise Long (from 15-7-15)	13,697	-	Pension	5,062	-
			<i>Lump Sum</i>	-	-

The Remuneration Report

EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

No	2014/15				Exit Package Cost Band	No	2015/16			
	Cash Value			Notional CAY Value			Cash Value			Notional CAY Value
	Compulsory Redundancies	Other Departures	Total Cash Value Cost				Compulsory Redundancies	Other Departures	Total Cash Value Cost	
£	£	£	£	£	£	£	£	£		
13	23,389	28,160	51,549	4,271	£0 - £20,000	57	306,493	87,436	393,929	-
4	53,068	67,240	120,308	-	£20,001 - £40,000	7	88,677	99,844	188,521	-
3	59,596	109,344	168,940	13,189	£40,001 - £60,000	8	207,961	178,207	386,168	-
-	-	-	-	-	£60,001 - £80,000	1	60,480	-	-	-
2	98,399	84,827	183,226	19,829	£80,001 - £100,000	1	82,076	-	82,076	-
2	101,744	122,032	223,776	23,439	£100,001 - £150,000	1	103,865	-	103,865	-
-	-	-	-	-	£150,001 - £200,000	-	-	-	-	-
24	336,196	411,603	747,799	60,728		75	849,552	365,487	1,154,559	0

Exit package costs include redundancy payments, pension strain and compensatory lump sum payments for all retirees. The costs should also include the capitalised cost of compensatory added years ("CAY"), which will be payable to the pension fund until the retiree ceases to claim their pension. For employees with pensions provided by the Strathclyde Pension Fund (the provider for all employees other than teachers) the notional cost of added years is noted separately in the table as costs are based on an assessment by the pension's provider of the present value of all future payments to the retiree. These amounts are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect the actual costs incurred.

The Cash Value costs noted in the table represent the actual costs incurred by the Council for the agreed exit packages. The capitalised added years pension element for members of the Teachers' Pension Scheme is included in the cash value cost as payment is made in advance to the teachers' pension fund to settle this liability.

The Remuneration Report

The total cost of £1.155m in the previous table includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2016 of £1.018m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 32 on [page x](#) provides more information on the exit packages agreed in the last two financial years.

Leader

Chief Executive

Statement of Movement in Reserves

Movements in 2015-16	Usable Reserves (Note 30)				Unusable Reserves (Note 29)						Total Reserves £'000
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Financial Instrument Adjustment Account £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000	
Balance at 31 March 2015	(46,067)	(669)	(3,742)	(50,478)	(55,224)	(209,599)	144,738	4,516	5,090	(110,479)	(160,957)
(Surplus)/Deficit on Provision of Services	19,653			19,653						-	19,653
Other Comprehensive Income and Expenditure					(578)		(61,209)			(61,787)	(61,787)
Total Comprehensive Income and Expenditure	19,653	-	-	19,653	(578)	-	(61,209)	-	-	(61,787)	(42,134)
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost				-	955	(955)				-	-
Amortisation of Intangible Assets	(118)			(118)		118				118	-
Depreciation of Non-current Assets	(20,700)			(20,700)		20,700				20,700	-
Impairment of Non-current Assets	(25,006)			(25,006)		25,006				25,006	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	16,922			16,922		(16,922)				(16,922)	-
Capital Expenditure Charged to the General Fund	743			743		(743)				(743)	-
Net Gain or Loss on Sale of Non-current Assets	(323)		(652)	(975)		975				975	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	351			351				(351)		(351)	-
Employee Benefits	561			561					(561)	(561)	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(10,912)			(10,912)			10,912			10,912	-

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	10,792			10,792		(10,792)				(10,792)	-
Statutory Repayment of Debt - NPDO Finance	1,877			1,877		(1,877)				(1,877)	-
Total Statutory Adjustments	(25,813)	-	(652)	(26,465)	955	15,510	10,912	(351)	(561)	26,465	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(6,160)	-	(652)	(6,812)	377	15,510	(50,297)	(351)	(561)	(35,322)	(42,134)
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	38	(2)	367	403		(403)				(403)	-
(Increase)/Decrease in Year	(6,122)	(2)	(285)	(6,409)	377	15,107	(50,297)	(351)	(561)	(35,725)	(42,134)
Balance at 31 March 2016 Carried Forward	(52,189)	(671)	(4,027)	(56,887)	(54,847)	(194,492)	94,441	4,165	4,529	(146,204)	(203,091)

This Statement shows the movement in the 2015-16 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

Comparative Movements in 2014-15	Usable Reserves (Note 30)				Unusable Reserves (Note 29)						Total Reserves
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 31 March 2014	(44,041)	(1,025)	(3,460)	(48,526)	(56,113)	(198,230)	118,337	4,889	4,818	(126,299)	(174,825)
(Surplus)/Deficit on Provision of Services	(4,581)			(4,581)						-	(4,581)
Other Comprehensive Expenditure and Income					774		17,675			18,449	18,449
Total Comprehensive Expenditure and Income	(4,581)	-	-	(4,581)	774	-	17,675	-	-	18,449	13,868
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	115	(115)				-	-
Amortisation of Intangible Assets	(108)			(108)		108				108	-
Depreciation and of Non-current Assets	(20,938)			(20,938)		20,938				20,938	-
Impairment of Non-current Assets	(4,827)			(4,827)		4,827				4,827	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	16,438			16,438		(16,438)				(16,438)	-
Capital Expenditure Charged to the General Fund	1,241			1,241		(1,241)				(1,241)	-
Net Gain or Loss on Sale of Non-current Assets	142		(430)	(288)		288				288	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	373			373				(373)		(373)	-
Employee Benefits	(272)			(272)					272	272	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(8,726)			(8,726)			8,726			8,726	-

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	17,843			17,843		(17,843)				(17,843)	-
Statutory Repayment of Debt - NPDO Finance	1,734			1,734		(1,734)				(1,734)	-
Total Statutory Adjustments	2,900	-	(430)	2,470	115	(11,210)	8,726	(373)	272	(2,470)	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,681)	-	(430)	(2,111)	889	(11,210)	26,401	(373)	272	15,979	13,868
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	(345)	356	148	159		(159)				(159)	-
(Increase)/Decrease in Year	(2,026)	356	(282)	(1,952)	889	(11,369)	26,401	(373)	272	15,820	13,868
Balance at 31 March 2015 Carried Forward	(46,067)	(669)	(3,742)	(50,478)	(55,224)	(209,599)	144,738	4,516	5,090	(110,479)	(160,957)

This Statement shows the movement in the 2014-15 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2014-15			Note	2015-16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Service			
111,565	6,921	104,644	Education Services	130,339	7,198	123,141
34,810	28,601	6,209	Housing Services (Non-HRA)	36,436	28,612	7,824
12,676	2,263	10,413	Cultural and Related Services	13,111	2,189	10,922
26,022	4,281	21,741	Environmental Services	22,618	4,375	18,243
25,517	6,980	18,537	Roads and Transport Services	24,726	6,712	18,014
7,903	4,852	3,051	Trading Services	8,092	4,691	3,401
10,735	5,660	5,075	Planning and Development Services	11,626	5,288	6,338
72,584	10,645	61,939	Social Work	77,788	11,660	66,128
			Central Services:			
4,537	95	4,442	- Corporate and Democratic Core	150,319	145,266	5,053
1,758	-	1,758	- Non Distributed Costs	2,478	28	2,450
2,859	1,280	1,579	- Central Services to the Public	2,987	1,249	1,738
310,966	71,578	239,388	Net Cost of Services	480,520	217,268	263,252

Statement of Comprehensive Income and Expenditure

		Other Operating Income and Expenditure:	
	(142)	Net (Gain)/loss on Disposal of Long Term Assets	323
	1,016	Other Operating Income and Expenditure	1,338
	874	Total Other Operating Income and Expenditure	1,661
		Financing and Investment Income and Expenditure:	
	18,116	Interest Payable and Similar charges	17,257
	(2,432)	Interest and Investment Income	(2,639)
	5,161	Net Pension Interest Expense	4,730
	20,845	Total Financing and Investment Income and Expenditure	19,348
		Taxation and Non-Specific Grant Income:	
	(174,877)	General Government Grants	(176,473)
	(16,438)	Government Capital Grants and Other Capital Contributions	(16,922)
	(31,002)	Non-domestic Rates Redistribution	(27,840)
	(43,371)	Council Tax Income	(43,373)
	(265,688)	Total Taxation and Non-Specific Grant Income	(264,608)
	(4,581)	Deficit/(Surplus) on Provision of Services	19,653
	774	(Surplus)/Deficit on revaluation of Long Term Assets	(578)
	17,675	Other Post Employment Benefits (Pensions)	(61,209)
	18,449	Other Comprehensive Income and Expenditure	(61,787)
	13,868	Total Comprehensive Income and Expenditure	(42,134)

Balance Sheet

31 March 2015		Note	31 March 2016	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment	14	
281,317		- Other Land and Buildings		258,485
11,088		- Vehicles, Plant, Furniture and Equipment		10,687
183,985		- Infrastructure Assets		201,164
1,669		- Community Assets		1,868
3,992		- Surplus Assets		2,817
30,223		- Assets Under Construction		15,486
	512,274	Total Property Plant & Equipment		490,507
	1,371	Heritage Assets	15	1,539
	647	Intangible Assets	16	577
	7,919	Investment Property	17	8,094
	-	Long Term Investments	25	491
	4,849	Long-Term Debtors	20	4,897
	527,060	Total Long Term Assets		506,105
		Current Assets		
334		Inventories		555
16,914		Short Term Debtors (Net of Impairment)	21	18,141
25		Assets Held for Sale	22	2,381
30,000		Short Term Investments		35,019
23,846		Cash and Cash Equivalents	23	7,940
	71,119	Total Current Assets		64,036
		Current Liabilities		
(33,729)		Short-term Borrowing	25	(18,571)
(35,577)		Short-term Creditors	24	(31,915)
(146)		Capital Grant Receipts in Advance		-
(1,410)		Provisions	27	(2,675)
(1,878)		Other Short Term Liabilities	26	(1,935)
	(72,740)	Total Current Liabilities		(55,096)
		Long-term Liabilities		
(141,435)		Borrowing Repayable within a Period in Excess of 12 Months	25	(141,514)
(76,743)		Other Long-term liabilities	26	(74,809)
(1,566)		Provisions	27	(1,190)
(144,738)		Other Long-term liabilities (Pensions)	28	(94,441)
	(364,482)	Total Long-term Liabilities		(311,954)
	160,957	Total Assets less Liabilities		203,091

Balance Sheet

31 March 2015		Note	31 March 2016	
£'000	£'000		£'000	£'000
		Unusable Reserves		
55,224		- Revaluation Reserve	54,847	
209,599		- Capital Adjustment Account	194,492	
(4,516)		- Financial Instruments Adjustment Account	(4,165)	
(144,738)		- Pensions Reserve	(94,441)	
(5,090)		- Accumulated Absences Account	(4,529)	
	110,479			146,204
		Usable Reserves		
3,742		- Capital Funds	4,027	
669		- Repairs and Renewals Funds	671	
46,067		- General Fund Balance	52,189	
	50,478			56,887
	160,957	Total Reserves		203,091

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

- The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).
- The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The Unaudited Annual Accounts were authorised for issue on 30 June 2016.

Kirsty Flanagan
Head of Strategic Finance
30 June 2016

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2014-15 £'000		Note	2015-16 £'000
(4,581)	Net (Surplus) or Deficit on the Provision of Services		19,653
(17,220)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(36,095)
8,260	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		4,640
(13,541)	Net Cash Flows from Operating Activities	35	(11,802)
8,227	Investing Activities	36	9,799
(12,457)	Financing Activities	37	17,909
(17,771)	Net Increase or Decrease in Cash and Cash Equivalents		15,906
(6,075)	Cash and Cash Equivalents at the beginning of the Reporting Period		(23,846)
(23,846)	Cash and Cash Equivalents at the end of the Reporting Period	23	(7,940)

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2015-16 financial year and its position at the year-end of 31 March 2016. The Council must ensure that its Annual Accounts are prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and the Service Reporting Code of Practice for Local Authorities 2015-16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made,

Notes to the Financial Statements

it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with loans fund principal charges.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance loans fund principal, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognised costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Notes to the Financial Statements

1.6.3 Post-Employment Benefits

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a) Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

b) Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pension's liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Non Distributed Costs in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council – The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
 - Re-measurements comprising

Notes to the Financial Statements

- The return on plan assets – Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve
 - Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material impact disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.8 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Notes to the Financial Statements

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9 Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for the identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Notes to the Financial Statements

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Heritage Assets

The main heritage assets held by the Council are two art collections and a historic jail and courthouse which is operated as a “living” museum. The “Argyll Collection” is an art collection which was set up to provide the young people of Argyll and Bute with direct access to a wide range of quality art recognising that they had limited access to museums and galleries. In addition the Council holds other works of art which are held at various libraries and the Campbeltown Museum. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council’s main heritage assets are accounted for as follows:

The Art Collections

The collections cover a range of media including acrylic, charcoal, embroidery, engraving, etching, gouache, lithography, oil, pastel, pencil, procion dye, screenprint, monoprint, watercolour, woodcut, ceramic, bronze and woodcarving. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These valuations are updated periodically. The assets within the art collections are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant and recent information from sales at auctions.

Notes to the Financial Statements

Inveraray Jail and Courthouse and “Other” Historic Buildings

The building is owned by Argyll and Bute Council and leased out to an organisation which runs it as a “living museum”. The building is valued in accordance with its property, plant and equipment policy. Other buildings included in this category are McCaig’s Folly in Oban and Castle Lodge in Dunoon.

Archaeology and “Other” Museum Exhibits

The Council does not consider that reliable cost or valuation information can be obtained for archaeological items and “other” museum exhibits outwith the art collections. This is because of the diverse nature of the assets held and lack of comparable values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council’s general policies on impairment (see note 1.18.3 in this summary of significant accounting policies). The proceeds of any disposals are accounted for in accordance with the Council’s general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory requirements relating to capital expenditure and receipts (see note 1.18.4 in this summary of significant accounting policies).

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council’s goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare Group Accounts. In the Council’s own single entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

1.14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Notes to the Financial Statements

1.15 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.16.1 The Council as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Notes to the Financial Statements

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.16.2 The Council as Lessor

a) Finance Leases

Where the Council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt on disposal of the asset is used to write down the debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

b) Operating Leases

Where the Authority grants an operating lease over a property or an item of plant and equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, with the exception of rental income from Investment Property which is credited to Interest and Investment Income. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015-16 – Scotland (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation; and
- Non Distributed costs – the cost of discretionary benefits awarded to employees retiring early.

Notes to the Financial Statements

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.18 Assets Held for Sale

Property, land and buildings are classified as *Assets Held for Sale* when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of *Property, Plant and Equipment* will be reclassified as *Assets Held for Sale*.

1.19 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes that are expected to be used during more than one financial year are classified as *Property, Plant and Equipment*.

1.19.1 Recognition

Expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.19.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Accounts. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

Notes to the Financial Statements

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- School buildings – current value, but because of their specialist nature, are measured at depreciated cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for current value.

Assets included in the balance sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of an impairment loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Notes to the Financial Statements

1.19.4 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as *Assets Held for Sale*.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Disposal receipts are categorised as capital receipts. All capital receipts are credited to the Capital Fund, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the costs of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.19.5 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

Notes to the Financial Statements

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

1.21.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

1.21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Notes to the Financial Statements

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 29 to the accounts.

1.23 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable.

1.23 ACCOUNTING FOR THE CARBON REDUCTION COMMITMENT SCHEME

The council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2016 for 2016/17).

For this disclosure the standards introduced by the 2016/17 Code include:

- a) Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- b) *Annual Improvements to IFRS 2010-2012 Cycle*
- c) Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- d) Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- e) *Annual Improvements to IFRSs 2012-2014 Cycle*
- f) Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- g) The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- h) The changes to the format of the Fund Account and Net Assets Statement.

It is anticipated that the above amendments will not have a material impact on the information provided in the financial statements.

Notes to the Financial Statements

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below:

Government Funding: There is a high degree of uncertainty about future levels of funding for local government. However, the Council had determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Service Concessions: The Council currently operates two Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – *Service Concession Arrangements*. The Council has determined that in the case of the Schools NPDO contract the Council has control over the services provided through use of the schools and that a qualifying asset has been created. The appropriate accounting treatment is to bring the assets “on balance sheet” along with a finance lease liability.

The Council also operates a Waste Management PPP contract. In this case the Council determined that a “qualifying asset” had not been created and that the Council did not have significant control over the services being provided. The appropriate accounting treatment was therefore determined to be “off balance sheet” and that payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account.

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2016 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2015-16 financial statements in respect of the holiday pay accrual is £4.529m.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.1m for every year that useful lives had to be reduced.</p>															
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	<p>The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="1223 895 2136 1406"> <thead> <tr> <th data-bbox="1223 895 1641 1066">Sensitivities at 31 March 2016</th> <th data-bbox="1641 895 1906 1066">Approximate % Increase to Employer Obligation</th> <th data-bbox="1906 895 2136 1066">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1223 1066 1641 1150">0.5% decrease in real discount rate</td> <td data-bbox="1641 1066 1906 1150">10%</td> <td data-bbox="1906 1066 2136 1150">59,923</td> </tr> <tr> <td data-bbox="1223 1150 1641 1235">1 year increase in member life expectancy</td> <td data-bbox="1641 1150 1906 1235">3%</td> <td data-bbox="1906 1150 2136 1235">18,366</td> </tr> <tr> <td data-bbox="1223 1235 1641 1319">0.5% increase in salary increase rate</td> <td data-bbox="1641 1235 1906 1319">3%</td> <td data-bbox="1906 1235 2136 1319">20,092</td> </tr> <tr> <td data-bbox="1223 1319 1641 1406">0.5% increase in pension increase rate</td> <td data-bbox="1641 1319 1906 1406">6%</td> <td data-bbox="1906 1319 2136 1406">38,700</td> </tr> </tbody> </table>	Sensitivities at 31 March 2016	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	10%	59,923	1 year increase in member life expectancy	3%	18,366	0.5% increase in salary increase rate	3%	20,092	0.5% increase in pension increase rate	6%	38,700
Sensitivities at 31 March 2016	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	10%	59,923															
1 year increase in member life expectancy	3%	18,366															
0.5% increase in salary increase rate	3%	20,092															
0.5% increase in pension increase rate	6%	38,700															

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2016, the Council had a balance of sundry debtors of £2.875m. A review of significant balances suggested an allowance of 23.8% (£0.684m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.288m.

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £42.522m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2015 £'000	Funds Used £'000	Contributions to/from Funds £'000	New Earmarking agreed during 2015-16 £'000	New Earmarking at end of 2015-16 £'000	Balance 31 March 2016 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	7,672	(3,083)	-	-	1,992	6,581
Unspent Grants	801	(398)	-	-	471	874
Contributions Carried Forward	203	(51)	-	-	125	277
Unspent Budget Carried Forward	8,039	(2,248)	(1,393)	-	1,931	6,329
School Budget Carry Forwards	737	(737)	-	-	1,209	1,209
Unspent Budget Required for Existing Legal Commitments	145	(1)	-	-	1,042	1,186
CHORD	96	-	-	-	-	96
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	3,000	-	(2,885)	-	2,690	2,805
Investment in Affordable Housing	9,500	-	(4,500)	-	-	5,000
Severance Costs	-	-	-	3,500	-	3,500
Helensburgh Waterfront	-	-	-	5,579	-	5,579
Argyll, Lomond and the Islands Regeneration Initiative	-	-	-	4,500	-	4,500
Asset Management	-	-	(14)	2,506	-	2,492
Energy Efficiency Fund	-	-	-	-	175	175
Transformation	-	-	-	100	-	100
Other	-	-	(250)	1,313	756	1,819
Total Ring-fenced	30,193	(6,518)	(9,042)	17,498	10,391	42,522
Contingency	3,658	-	1,085	-	-	4,743
Unallocated	12,216	-	(7,292)	-	-	4,924
Total General Fund Balance	46,067	(6,518)	(15,249)		10,391	52,189

Notes to the Financial Statements



The unallocated balance of £4.924m is 2% of the Council's budgeted net expenditure for 2016-17.

6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council’s Strategic Management Team on the basis of budgets analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows, (payment of employer’s pensions contributions) rather than current service cost of benefits accrued in the year
- Certain costs are deemed to be out with departmental control and are therefore reported separately to management, for example insurances across the Council.

6.1 Departmental Information for the year ended 31 March 2016

The income and expenditure of the Council’s principal departments recorded in the budget reports for the 2015-16 year is as follows:

Departmental Income and Expenditure 2015-16	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(20,254)	(39,813)	(39,607)	(116)	(99,790)
Government Grants	(1,781)	(767)	(625)	-	(3,173)
Total Income	(22,035)	(40,580)	(40,232)	(116)	(102,963)
Employee Expenses	88,593	22,404	18,451	2,089	131,537
Other Operating Expenses	75,457	47,870	59,507	115	182,949
Total Operating Expenses	164,050	70,274	77,958	2,204	314,486
Net Cost of Services	142,015	29,694	37,726	2,088	211,523

Departmental Income and Expenditure 2014-15 Comparative Figures	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(18,919)	(39,146)	(41,908)	(152)	(100,125)
Government Grants	(1,959)	(510)	(548)	(3)	(3,020)
Total Income	(20,878)	(39,656)	(42,456)	(155)	(103,145)
Employee Expenses	87,094	21,567	15,717	5,510	129,888
Other Operating Expenses	71,052	50,811	60,223	640	182,726
Total Operating Expenses	158,146	72,378	75,940	6,150	312,614
Net Cost of Services	137,268	32,722	33,484	5,995	209,469

6.2 Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

The reconciliation below shows how the figures in the analysis of departmental income and expenditure relate to the total Net Cost of Services in the Comprehensive Income and Expenditure Statement.

	2015-16 £'000	2014-15 £'000
Cost of Services in Service Analysis	211,523	209,469
Add Services not included in Main Analysis	5,371	4,790
Add Amounts not Reported to Management	47,506	26,336
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(1,148)	(1,207)
Net Cost of Services in Comprehensive Income and Expenditure Statement	263,252	239,388

6.3 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015-16	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(99,755)	(21)	-	190	(99,586)	-	(99,586)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	-	-
Interest and Investment Income	(35)	-	-	35	-	(2,639)	(2,639)
Income from Council Tax	-	-	-	-	-	(43,373)	(43,373)
Government Grants and Contributions	(3,173)	(210)	-	-	(3,383)	(221,235)	(224,618)
Total Income	(102,963)	(231)	-	225	(102,969)	(267,247)	(370,216)
Employee Expenses	131,537	2,712	7,656	(14)	141,891	-	141,891
Other Service Expenses	182,949	1,544	4,237	(68)	188,662	47	188,709
Depreciation, Amortisation and Impairment	-	-	35,613	-	35,613	-	35,613
Interest Payments, Net Pension Interest Expense	-	-	-	-	-	21,987	21,987
Precepts, Levies and Requisitions	-	1,346	-	(1,291)	55	1,291	1,346
Gain or Loss on Disposal of Assets	-	-	-	-	-	323	323
Total Operating Expenses	314,486	5,602	47,506	(1,373)	366,221	23,648	389,869
Surplus or Deficit on the Provision of Services	211,523	5,371	47,506	(1,148)	263,252	(243,599)	19,653

2014-15 Comparative Figures	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(100,090)	(109)	-	157	(100,042)	-	(100,042)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	-	-
Interest and Investment Income	(35)	-	-	35	-	(2,432)	(2,432)
Income from Council Tax	-	-	-	-	-	(43,371)	(43,371)
Government Grants and Contributions	(3,020)	-	-	-	(3,020)	(222,317)	(225,337)
Total Income	(103,145)	(109)	-	192	(103,062)	(268,120)	(371,182)
Employee Expenses	129,888	2,183	6,092	(52)	138,111	-	138,111
Other Service Expenses	182,726	1,369	3,882	(60)	187,917	(271)	187,646
Depreciation, Amortisation and Impairment	-	-	16,362	-	16,362	-	16,362
Interest Payments, Net Pension Interest Expense	-	-	-	-	-	23,277	23,277
Precepts, Levies and Requisitions	-	1,347	-	(1,287)	60	1,287	1,347
Gain or Loss on Disposal of Assets	-	-	-	-	-	(142)	(142)
Total Operating Expenses	312,614	4,899	26,336	(1,399)	342,450	24,151	366,601
Surplus or Deficit on the Provision of Services	209,469	4,790	26,336	(1,207)	239,388	(243,969)	(4,581)

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.338m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure can be analysed as follows:

Other Operating Income and Expenditure	2015-16 Actual £'000	2014-15 Actual £'000
Dunbartonshire and Argyll & Bute Valuation Joint Board Requisition	1,282	1,282
Equal Pay Settlements and Legal Costs	52	(219)
Other Operating Income and Expenditure not attributable to Services	4	(47)
Total	1,338	1,016

8. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2015-16 income from this agreement amounted to £0.309m.

Agency Income	2015-16 Actual £'000	2014-15 Actual £'000
Scottish Water	309	318
Total	309	318

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages [x to y](#).

9. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

During 2015-16, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

The aspiration of the CHP is to work together to fully integrate the delivery of health and social care services, focusing on achieving good outcomes for all those who use our services and have an efficient, cost effective and seamless delivery of service.

During 2015-16 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2015-16 income received by the Council from this source amounted to £6.479m and the related expenditure was £8.728m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,839	4,174
Provision of Services for People with Learning Disabilities	2,397	3,055
Provision of Services for People with Mental Health Needs	1,243	1,499
Total	6,479	8,728

Notes to the Financial Statements

10. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £4.890 (2014-15 £4.954m) which represents the value of the service provided from 1 April 2015 to 31 March 2016. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2016 - 2017	5,596
2018 - 2020	18,052
2020 - 2025	32,460
2025 - 2027	9,444
Total	65,552

This equates to £5.328m per annum over the life of the contract.

11. FEES PAYABLE TO AUDIT SCOTLAND

In 2015-16 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2015-16 £'000	2014-15 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	262	285
Total Remuneration	262	285

The fee for 2015-16 includes £3,300 for the audit of the Council's charitable trusts.

Notes to the Financial Statements

12. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2015-16:

Grant Income	2015-16 £'000	2014-15 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	176,473	174,877
Non Domestic Rates	27,840	31,002
Specific Capital Grant	113	140
General Capital Grant	13,623	13,948
European Regional Development Fund (ERDF)	-	716
SUSTRANS	-	864
Scottish Government - Regeneration Capital Grant Fund	675	-
Strathclyde Partnership for Transport (SPT)	537	-
Other Grants	1,828	744
Other Government Capital Grants	146	26
Total	221,235	222,317
Credited to Services		
Scottish Government Specific Grants	410	373
General Capital Grant - Private Sector Housing Improvement Grants	1,977	1,516
Housing Benefit Subsidy	21,508	23,619
Other Revenue Government Grants	1,332	1,196
Total	25,227	26,704

Notes to the Financial Statements

13. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

13.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 12 – Grant Income.

13.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2015-16 is shown in the Remuneration Report on page X.

During the year there were two organisations in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Trident Taxis	17
MacDougall's Garage	35

Notes to the Financial Statements

13.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

Related Bodies	Expenditure £'000
Transactions with related bodies during the year totalled	4,889
<i>Of these, transactions with the following exceeded £10,000:</i>	
Visit Scotland	117
Scotland Excel	65
Convention of Scottish Local Authorities (COSLA)	61
West Highland Housing Association Ltd	661
Dunbritton Housing Association	528
Argyll Community Housing Association (ACHA)	385
Link Group Ltd	647
Fyne Homes Ltd	731
Helensburgh Addiction Rehabilitation Team	12
Oban Addiction Support and Information Services (OASIS)	10
Argyll and Bute Citizens Advice Bureaux	76
Kintyre Recycling	161
RE-JIG (Recycling)	19
Fyne Futures	125
SEEMIS	86
South Kintyre Development Trust	566
Islay and Jura Community Enterprise	96
Mid Argyll Community Enterprise	74
Oban and Lorn Community Enterprise - Atlantis Leisure	449
Total	4,869

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Annual Accounts and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

14.1 Movement in Property, Plant and Equipment

Movements in 2015-16	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2015-16 £'000
Cost or Valuation							
At 1 April 2015	299,883	28,824	245,190	1,671	4,228	30,223	610,019
Additions	4,716	3,075	5,017	199	49	14,390	27,446
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(8,181)	-	-	-	323	274	(7,584)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(27,772)	-	(51)	-	221	-	(27,602)
Derecognition - Disposals	(724)	(636)	(4,983)	-	(312)	(2)	(6,657)
Assets reclassified (to)/from Held for Sale	9,292	-	202	-	(1,688)	(11,143)	(3,337)
Other movements in cost or valuation		254	17,851	-	-	(18,256)	(151)
At 31 March 2016	277,214	31,517	263,226	1,870	2,821	15,486	592,134
Depreciation and Impairments							
At 1 April 2015	(18,566)	(17,736)	(61,205)	(2)	(236)	-	(97,745)
Depreciation Charge for 2015-16	(11,330)	(3,718)	(5,789)	-	(119)	-	(20,956)
Depreciation written out to the Revaluation Reserve	7,614	-	4,932	-	186	-	12,732
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	3,302	-	-	-	1	-	3,303
Derecognition - Disposals	-	624	-	-	114	-	738
Other movements in depreciation and impairment	251	-	-	-	50	-	301
At 31 March 2016	(18,729)	(20,830)	(62,062)	(2)	(4)	-	(101,627)
Balance Sheet amount at 1 April 2016	258,485	10,687	201,164	1,868	2,817	15,486	490,507
Balance Sheet amount at 1 April 2015	281,317	11,088	183,985	1,669	3,992	30,223	512,274

Comparative Movements in 2014-15	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2014-15 £'000
Cost or Valuation							
At 1 April 2014	312,151	26,390	225,473	1,671	4,756	25,591	596,032
Additions	6,686	3,778	6,292	-	39	19,867	36,662
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(15,655)	-	-	-	(172)	-	(15,827)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,341)	-	-	-	(224)	-	(6,565)
Derecognition - Disposals	-	(1,576)	-	-	(156)	-	(1,732)
Assets reclassified (to)/from Held for Sale	-	-	-	-	(15)	-	(15)
Other movements in cost or valuation	3,042	232	13,425	-	-	(15,235)	1,464
At 31 March 2015	299,883	28,824	245,190	1,671	4,228	30,223	610,019
Depreciation and Impairments							
At 1 April 2014	(21,737)	(15,716)	(55,918)	(2)	(175)	-	(93,548)
Depreciation Charge for 2014-15	(11,928)	(3,588)	(5,287)	-	(133)	-	(20,936)
Depreciation written out to the Revaluation Reserve	15,009	-	-	-	9	-	15,018
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	90	-	-	-	36	-	126
Derecognition - Disposals	-	1,568	-	-	24	-	1,592
Other movements in depreciation and impairment	-	-	-	-	3	-	3
At 31 March 2015	(18,566)	(17,736)	(61,205)	(2)	(236)	-	(97,745)
Balance Sheet amount at 1 April 2015	281,317	11,088	183,985	1,669	3,992	30,223	512,274
Balance Sheet amount at 1 April 2014	290,414	10,674	169,555	1,669	4,581	25,591	502,484

Notes to the Financial Statements

14.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of Property, Plant and Equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach.

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. This includes Other Land and Buildings and Surplus Assets.

Revaluations of council owned Land and Property were carried out at 31 March 2016 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by external valuers, Ryden Real LLP. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment:

Valued at Fair Value as at:	Other Land & Buildings £'000	Corporate Surplus Assets £'000
31 March 2016	54,330	2,395
31 March 2015	31,806	64
31 March 2014	40,802	334
31 March 2013	120,572	15
31 March 2012	10,975	9
Total Cost or Valuation	258,485	2,817

Notes to the Financial Statements

14.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified officer (3 to 20 years)
- Vessels – straight line allocation over 25 years

14.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2015-16 total spending on capital projects was £27.748m.

	2015-16 £'000	2014-15 £'000
Opening Capital Financing Requirement	257,556	256,463
Capital Investment:		
Property Plant and Equipment:		
Other Land and Buildings	4,716	8,163
Vehicles, Plant, Furniture and Equipment	3,075	3,778
Infrastructure Assets	5,017	6,292
Community Assets	199	-
Surplus Assets	49	39
Assets Under construction	14,390	19,867
Heritage Assets	25	-
Intangible Assets	277	390
Total Capital Investment	27,748	38,529
Sources of Finance:		
Capital Receipts	(652)	(430)
Government Grants	(16,922)	(16,438)
Capital Financed from Current Revenue	(743)	(1,241)
Repayment of External Loans	(10,792)	(17,843)
Capital Element of Finance Lease Payments	-	-
Capital Element of Schools NPDO Payments	(1,877)	(1,734)
Capital Receipts transferred to Capital Fund	652	430
Capital Receipts Used from Capital Fund	(367)	(148)
Other	(707)	(32)
Total Funding	(31,408)	(37,436)
Closing Capital Financing Requirement	253,896	257,556

Notes to the Financial Statements

14.5 Commitments under Capital Contracts

At 31 March 2016, the Council had commitments on capital contracts of £11.458m. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2015 were £12.201m. The major commitments are:

	£'000
Carbon Management Biomass Heating Conversions	1,866
Oban Public Realm	1,113
Rothesay Pavilion	701
Dunoon CHORD	613
Rothesay Enabling Works	489
Campbeltown Office Rationalisation	380
Aqualibrium	211
Eader Glinn	200
Dunoon Hostel	187
Helensburgh Office Rationalisation	180
Corran Halls	288
Helensburgh CHORD	100

15. HERITAGE ASSETS

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.10 on page X.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2015-16	Art Collections	Heritage Property	Total
	£'000	£'000	£'000
Cost or Valuation			
Net Book Value at 1 April 2015	1,148	223	1,371
Additions	25	-	25
Disposals	(42)	-	(42)
Revaluations	185	-	185
Depreciation	-	-	-
At 31 March 2016	1,316	223	1,539

Notes to the Financial Statements

16. INTANGIBLE ASSETS

Intangible assets comprise software licences and carbon reduction commitment allowances purchased in advance. Purchased software licences are shown at cost and this cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Account over the economic life of the licences, assessed as five years.

The carbon reduction commitment allowances relate to allowances purchased in advance as part of the Carbon Reduction Energy Efficiency Scheme (Phase 2). These allowances will be surrendered in the October of each year on the basis of emissions, i.e. carbon dioxide produced as energy is used.

The movement in intangible assets during the year was:

Movements in 2015-16	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2015	234	1,237	1,471
Additions	242	35	277
Disposals	(234)	-	(234)
Reclassifications	-	5	5
At 31 March 2016	242	1,277	1,519
Depreciation and Impairments			
At 1 April 2015	-	(824)	(824)
Charge for 2015-16	-	(118)	(118)
Disposals	-	-	-
At 31 March 2016	-	(942)	(942)
Balance Sheet amount at 1 April 2016	242	335	577
Balance Sheet amount at 1 April 2015	234	413	647

Notes to the Financial Statements

Comparative Movements in 2014-15	Carbon Reduction Commitment Allowance	Purchased Software Licences	Purchased Software Licences 2013-14
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2014	-	1,067	1,067
Additions	234	156	390
Disposals	-		-
Reclassifications	-	14	14
At 31 March 2015	234	1,237	1,471
Depreciation and Impairments			
At 1 April 2014	-	(716)	(716)
Charge for 2014-15	-	(108)	(108)
Disposals	-		-
At 31 March 2015	-	(824)	(824)
Balance Sheet amount at 1 April 2015	234	413	647
Balance Sheet amount at 1 April 2014	-	351	351

17. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2016. Revaluations of investment properties were carried out at 31 March 2016 by external valuers, Ryden LLP.

17.1 Movement in Investment Property

The movement in investment property during 2015-16 was:

Movements in 2015-16	Investment Properties
	£'000
Cost or Valuation	
At 1 April 2015	7,919
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	(128)
Transfers	303
At 31 March 2016	8,094

Notes to the Financial Statements

17.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2015-16 £'000	2014-15 £'000
Rental Income from Investment Property	131	98
Direct operating expenses arising from investment property	-	-
Net gain/(loss)	131	98

18. SCHOOLS NON-PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing organisation (NPDO) variant of a public private partnership, became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

18.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2013 and depreciation to date are included as part of Other Land and Buildings as follows:

Movements in 2015-16	Land & Buildings £'000
Cost or Valuation	
At 1 April 2015	93,192
Additions	14
Revaluations	-
At 31 March 2016	93,206
Depreciation and Impairments	
At 1 April 2015	(3,405)
Charge for 2015-16	(1,700)
Revaluations	-
At 31 March 2016	(5,105)
Balance Sheet amount at 1 April 2016	88,101
Balance Sheet amount at 1 April 2015	89,787

Notes to the Financial Statements

18.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2015-16	£'000
Balance at 1 April 2015	(77,871)
Repayments	1,877
Schools NPDO Finance Lease Liability at 31 March 2015	(75,994)
Split:	
Obligations payable within 1 year	(1,935)
Obligations payable after 1 year	(74,059)
Schools NPDO Finance Lease Liability at 31 March 2016	(75,994)

18.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2016 - 2020	8,328	-	30,040	19,837	58,205
2020 - 2025	14,888	933	31,916	28,222	75,959
2025 - 2030	22,156	2,853	23,187	32,360	80,556
2030 - 2035	30,622	3,139	9,843	33,353	76,957
Total	75,994	6,925	94,986	113,772	291,677

19. OPERATING LEASES

19.1 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2015-16 were as follows:

	2015-16 £'000	2014-15 £'000
Land and Buildings	198	231
Vehicles	195	227
Plant and Equipment	171	209
Total	564	667

Notes to the Financial Statements

19.2 Assets Held Under Operating Leases

The Council was committed at 31 March 2016 to making payments of £0.404m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	9	64
Leases expiring between 1 and 5 years	26	199
Leases expiring after 5 years	106	-
Value at 31 March 2016	141	263

20. LONG TERM DEBTORS

	31st March 2016 £'000	31st March 2015 £'000
House Loans	37	43
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	1,179	1,051
Strategic Housing Fund Loans to Registered Social Landlords	2,831	2,905
Other Long Term Debtors	100	100
Total Long Term Debtors	4,897	4,849

21. DEBTORS

	31 March 2016		31 March 2015	
	£'000	£'000	£'000	£'000
Arrears of Local Taxation	13,970		13,299	
Council Tax				
Less: Provision for Bad Debts	(11,383)		(10,764)	
		2,587		2,535
Housing Benefits Overpayments	1,266		1,105	
Less: Provision for Bad Debts	(1,033)		(900)	
		233		205
Debtor Accounts	2,875		2,478	
Less: Provision for Bad Debts	(684)		(690)	
		2,191		1,788
VAT Recoverable from HMRC		2,999		3,033
Strategic Housing Fund Loans due within 1 Year		1,005		1,186
Other Debtors		9,126		8,167
Total Debtors		18,141		16,914

Notes to the Financial Statements

22. ASSETS HELD FOR SALE

The movement in assets held for sale during 2015-16 was:

Movements	2015-16 £'000	2014-15 £'000
Balance outstanding at start of year	25	153
Assets newly classified as held for sale (Property, Plant and Equipment)	2,907	15
Revaluation losses	-	(2)
Revaluation gains	26	-
Impairment losses	(564)	-
Assets declassified as held for sale (Property, Plant and Equipment)	(13)	(3)
Assets Sold	-	(138)
Balance outstanding at year-end	2,381	25

23. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2016 £'000	31 March 2015 £'000
Cash held by the Authority	64	64
Cash in transit	254	106
Short term deposits with banks	688	14,408
Short term deposits in Money Market Funds	10,750	12,000
Bank Current Accounts (Overdraft)	(3,816)	(2,732)
Total Cash and Cash Equivalents	7,940	23,846

24. CREDITORS

	31 March 2016 £'000	31 March 2015 £'000
Accrued Payrolls and Superannuation	6,421	6,077
Accrued Employer's National Insurance Contributions and PAYE	2,149	2,155
Accrual for Short Term Accumulating Absences	4,529	5,090
Creditors System Liability	4,865	6,297
Accrued Expenditure	4,226	5,566
Other Creditors	9,725	10,392
Total Creditors	31,915	35,577

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS DISCLOSURES

25.1 Types of Financial Instruments

Accounting regulations require the “financial instruments” (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of “financial instruments”:

	31 March 2016		31 March 2015	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	4,897	88,936	4,849	70,760
Borrowing				
Financial Liabilities at amortised cost	197,067	71,671	218,178	71,183

25.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2016 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2016		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	93,833	93,901	75,609	75,693
Borrowing				
Financial Liabilities	268,744	326,462	289,361	345,404

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

Notes to the Financial Statements

The fair value is greater than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above the current market rates increases the amount the Council would have to pay if it agreed to early repayment of the loans.

25.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments.

25.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

25.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, money market funds, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and money market funds whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2016 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2015 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks and Money Market Funds	11,428	-	-

The information in respect of the Council's debtors can be found in note 20 and 21 on [pages x to y](#). The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 21 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the council and credit is issued on the council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

25.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more

Notes to the Financial Statements

than 30% of the loans are due to mature within any financial year and 60% within a rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of financial liabilities is as follows:

Maturity analysis of financial liabilities	31 March 2016 £'000	31 March 2015 £'000
Less than one year	71,671	71,184
Between one and two years	31,872	11,316
Between two and five years	30,020	26,997
More than five years	135,181	179,864
	268,744	289,361

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

25.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional "fair value" of lending and borrowing. For example, a rise in interest rates would reduce the "fair value" of both lending and borrowing at fixed rates. Changes in "fair value" of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government's grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for "loan charges".

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2015, with all other variables held constant:

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	31 March 2016 £'000
Impact on tax-payer	
Increase on interest payable on variable rate borrowings	76
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	76

	31 March 2016 £'000
Other accounting presentational changes	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	30,877

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

25.8 Price Risk

The Council has no investment classified as "available-for-sale".

25.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

25.10 Short-Term Deposits

The short-term deposits arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The Council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2016 £'000	31 March 2015 £'000
Banks and Money Market Funds	11,428	26,408

25.11 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2016 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 33 and 34 on pages [x to y](#).

	31 March 2016 £'000	31 March 2015 £'000
Common Good	110	107
Trust Funds	695	1,258

Notes to the Financial Statements

26. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £76.744m as at 31 March 2016 and comprise the following:

Movements in 2015-16	Opening Balance 31 March 2015 £'000	Movement in Year £'000	Closing Balance 31 March 2016 £'000
Schools NPDO Finance Lease Liability (See note 18.2)	(77,871)	1,877	(75,994)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(78,621)	1,877	(76,744)
Split:			
Short Term Liabilities (due within 1 year)			(1,935)
Long Term Liabilities (due after 1 year)			(74,809)
Total Other Liabilities			(76,744)

27. PROVISIONS

	Opening Balance 31 March 2015 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2016 £'000
SRC Insurance Claims	(21)		14	7	-
Equal Pay Claims	(77)	(12)	12		(77)
Income due to Registered Social Landlords	(68)	(80)			(148)
Reorganisation Redundancy Costs	(91)	(50)	60		(81)
Service Choices Redundancy Costs	-	(937)			(937)
Landfill Sites - Restoration and Aftercare Costs	(1,477)			435	(1,042)
Utilities Provision	(599)			89	(510)
Other Provisions	(643)	(768)	218	123	(1,070)
Total Provisions	(2,976)	(1,847)	304	654	(3,865)
Split:					
Short Term Provisions (due within 1 year)					(2,675)
Long Term Provisions (due after 1 year)					(1,190)
Total Other Liabilities					(3,865)

A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. There may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2015-16 amounted to £1.892m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.148m.

Notes to the Financial Statements

In line with expectations, liabilities have arisen in respect of employees who will be made redundant as a result of operational restructuring and Service Choices. The Council has significant budget savings to make over the next 5 years and there has been a complete service provision review, Service Choices. As a result of Service Choices and other savings agreed as part of the budget process for 2016-17, a number of posts will be removed resulting in increased redundancy costs. In line with normal practice, the Council invited all employees to express an interest in voluntary redundancy and a number of employees have subsequently either taken or have been offered a redundancy package. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2016, a provision of £0.937m has been created during 2015-16. For further information refer to note 32 - Termination Benefits on page x.

A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. The landfill sites were revalued at 31 March 2016 and the provision for restoration and aftercare reduced to £1.042m. These have been provided for based on the net present value of estimated future costs.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.089m has been utilised during 2015-16 resulting in a total provision of £0.510m.

The "other" provisions includes funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2016-17.

28. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

Local Government Pension Scheme

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

Notes to the Financial Statements

28.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the pension schemes by the 31 March 2016. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2016. The amounts are as follows:

- Local Government Pension Scheme – £1.297m
- Teachers' scheme – £0.724m

28.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2014. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2016 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

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	2015-16 £'000	2014-15 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
<i>Service cost comprising:</i>		
Current Service Cost	19,689	16,474
Past Service Cost (Including Curtailments)	398	311
Net Cost of Services	20,087	16,785
Net Interest Expense	4,730	5,161
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	24,817	21,946
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on Assets (excluding amounts included in net interest)	3,039	(25,812)
Other Experience	(8,403)	(33,937)
Change in Financial Assumptions	(55,845)	77,424
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(36,392)	39,621
Statement of Movement in Reserves:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(10,912)	(8,726)
Actual Amount charged against the General Fund Balance for pensions in the year:		
Employer's Contributions Payable to the Scheme	13,905	13,220

28.3 Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2015-16 £'000	2014-15 £'000
Defined Benefit Obligation at 1 April	651,859	581,522
Current Service Cost	19,689	16,474
Past Service Costs including Curtailments	398	311
Interest Cost	20,918	25,027
Contributions by Scheme Participants	3,812	3,542
Re-measurement Gains and (Losses)	(64,248)	43,487
Estimated Benefits Paid	(20,214)	(18,504)
Defined Benefit Obligation at 31 March	612,214	651,859

Notes to the Financial Statements

Reconciliation of fair value of the scheme (plan) assets:

	2015-16 £'000	2014-15 £'000
Fair Value of Employer Assets at 1 April	507,121	463,185
Re-measurement Gains and (Losses):		
Expected Rate of Return on Pension Fund Assets	(3,039)	25,812
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	16,188	19,866
Employers Contributions	13,905	13,220
Contributions by Scheme Participants	3,812	3,542
Estimated Benefits Paid	(20,214)	(18,504)
Fair Value of Employer Assets at 31 March	517,773	507,121

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

28.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2015-16 £'000	2014-15 £'000
Local Government Pension Scheme		
Present Value of Funded Liabilities	(585,370)	(622,119)
Present Value of Unfunded Liabilities	(26,844)	(29,740)
Fair Value of Employer Assets	517,773	507,121
(Deficit) in the Scheme	(94,441)	(144,738)

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits.

Notes to the Financial Statements

28.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2016 comprised:

	2015-16 £'000	2014-15 £'000
Cash and Cash Equivalents	17,842	12,460
Equity Instruments (by industry type)		
Consumer	48,561	47,924
Manufacturing	38,791	38,267
Energy and Utilities	15,256	15,056
Financial Institutions	35,726	35,258
Health and Care	20,888	20,614
Information Technology	29,562	29,173
Sub-total Equity Instruments	188,784	186,292
Bonds (by sector)		
Corporate	1	3
Government	-	-
Sub-total Bonds	1	3
Real Estate		
UK Property	55,624	46,332
Overseas Property	-	-
Sub-total Real Estate	55,624	46,332
Private Equity (All)	50,365	49,347
UK		
Investment Funds and Unit Trusts		
Equities	134,395	145,498
Bonds	63,194	64,207
Commodities	176	192
Infrastructure	-	1,714
Other	7,267	921
Sub-total Investment Funds and Unit Trusts	205,032	212,532
Derivatives		
Forward Foreign Exchange Contracts	-	-
Other	125	155
Sub-total Derivatives	125	155
Total Assets	517,773	507,121

Notes to the Financial Statements

Fair Value of Pension Fund Assets	2015-16 £'000	2014-15 £'000
Equity Securities		
Quoted in an Active Market	188,376	185,910
Not Quoted in an Active Market	408	382
Sub-total Equity Securities	188,784	186,292

28.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long-term Expected Rate of Return on Assets in the Fund	2015-16 %	2014-15 %
Equity Investments	3.5%	3.2%
Bonds	3.5%	3.2%
Property	3.5%	3.2%
Cash	3.5%	3.2%

Mortality assumptions	2015-16 Years	2014-15 Years
Longevity at 65 for current pensioners:		
Men	22.1	22.1
Women	23.6	23.6
Longevity at 65 for future pensioners:		
Men	24.8	24.8
Women	26.2	26.2

Financial Assumptions	2015-16 %	2014-15 %
Rate of Inflation (CPI)	2.2%	2.4%
Rate of Increase in Salaries	4.2%	4.3%
Rate of Increase in Pensions (CPI)	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	3.2%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

28.7 Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of Strathclyde Pension fund does not have an asset and liability matching strategy (ALM) as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested into too narrow a range.

Notes to the Financial Statements

28.8 Impact on the Authority's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2016-2017.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2017 is £11.765m. This is based on an assumed pensionable payroll of £60.956m.

The assumed weighted average duration of the defined benefit obligation is 17.8 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

28.9 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency. The Scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified by the regulations.

The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.

The Authority has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Authority is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay. This increased to 17.2% from 1 September 2015. While the employee rate applied is variable it provides an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate.

As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2016, the Authority's own contributions equate to 1.53%.

	2015-16	2014-15
Amount Paid Over (£'000)	5,353	5,028
Rate of Contribution (%)	17.20%	14.90%
Amount of Added Years Awarded by the Council (£'000)	526	525

The contributions due to be paid to the Teacher's Scheme by Argyll and Bute Council in the next financial year are estimated to be £5.675m.

Notes to the Financial Statements

29. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages **x to y**.

29.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

29.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

29.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

29.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

Notes to the Financial Statements

29.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

30. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages **x to y**.

30.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

Usable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006, the receipts from the sale of council houses were transferred to the Usable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure.

Capital Fund

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008.

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2015-16	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2015	2,766	976	3,742
Proceeds of Disposals	-	652	652
Transfer to Capital Adjustment Account	-	(403)	(403)
Contribution to Capital Fund From Revenue	-	22	22
Contribution to Loans Fund Charges	-	-	-
Interest Earned	10	4	14
Balance at 31 March 2016	2,776	1,251	4,027

The movement in the Repairs and Renewals Funds are as follows:

Movements in 2015-16	Balance at 31 March 2015 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2016 £'000
Education	599	132	2	(62)	671
Vehicles	70	-	-	(70)	-
Total	669	132	2	(132)	671

Notes to the Financial Statements

31. CONTINGENT LIABILITIES

The Council settled a number of equal pay claims during 2015-16, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

The Council has been subject to a judicial review of various decisions made in respect of Rothesay Harbour when acting as the Harbour Authority. The outcome of the review is unknown at this time but liabilities may arise as a result.

The final contract payments in respect of the new offices in Helensburgh are under dispute and the outstanding amount cannot be quantified at this stage.

32. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2014-15 was £0.748m for 24 employees and in 2015-16 was £1.155m for 75 employees. These costs are detailed further in the Remuneration Report on pages **x to y**.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2015 have been accounted for in 2015-16, or in previous financial years.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

33. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 57 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

Funds for which Argyll and Bute Council act as sole trustee:

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	8	5	429	429
GM Duncan Trust	-	2	83	83
MacDougall Trust	10	-	610	610
Various Other Trust Funds	5	1	497	497
Total Trust Funds	23	8	1,619	1,619

Notes to the Financial Statements

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. MacDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.

34. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2016. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

34.1 Common Good Income and Expenditure Account for the year ended 31 March 2016

2014-15 Actual £'000		2015-16 Actual £'000
201	Expenditure	202
(80)	Income	(287)
121	(Surplus)/Deficit for the Year	(85)

34.2 Common Good Balance Sheet at 31 March 2016

2014-15 Actual £'000		2015-16 Actual £'000
4,151	Tangible Fixed Assets	4,017
2,098	Investments	2,006
216	Current Assets	175
(2)	Current Liabilities	(4)
6,463	Total Assets less Liabilities	6,194
4,151	Revaluation Reserve	4,022
2,312	Common Good Fund	2,172
6,463	Total Net Worth	6,194

Notes to the Financial Statements

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2015-16 £'000	2014-15 £'000
Net (Surplus)/Deficit on Provision of Services	19,653	(4,581)
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	(25,813)	2,900
Transfer to/from Other Statutory Reserves	38	(345)
Increase/(Decrease) in Inventories	221	(56)
Increase/(Decrease) in Debtors	640	599
(Increase)/Decrease in Creditors and Provisions	1,174	(1,213)
Other Revenue Adjustments	(12,355)	(19,105)
	(36,095)	(17,220)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	6,517	9,994
Capital Element of Finance Lease Payments	(1,877)	(1,734)
	4,640	8,260
Net Cash Flows from Operating Activities	(11,802)	(13,541)
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	8,919	9,804
Interest Paid on Finance Leases	7,903	8,071
Interest Received on Bank Deposits	(534)	(514)
Net Cash Outflow from Servicing of Finance	16,288	17,361

36. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2015-16 £'000	2014-15 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	21,082	28,976
Investments made/(disposed of) during year	5,510	(5,000)
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(652)	(430)
Other Receipts from Investing Activities	(16,141)	(15,319)
Net Cash Outflow from Investing Activities	9,799	8,227

Notes to the Financial Statements

37. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2015-16 £'000	2014-15 £'000
Cash Receipts of Short and Long Term Borrowing	(16,541)	(20,589)
Other Receipts from Financing Activities	744	(1,994)
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,877	1,734
Repayments of Short and Long Term Borrowing	31,829	8,392
Other Payments from Financing Activities	-	-
Net Cash Outflow from Financing Activities	17,909	(12,457)

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2014-15 Actual £'000		2015-16 Actual £'000
54,356	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,498
1,880	Add Back: RSL Second Home Discount Additional Income	1,892
(12,607)	Less: Other Discounts and Reductions	(12,377)
(926)	Provision for Bad and Doubtful Debts	(934)
42,703	Total	43,079
668	Adjustment to Previous Years' Community Charge and Council Tax	294
43,371	Transfers to General Fund	43,373

Notes to the Council Tax Income Account

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2015-16 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	785.33
B	£27,001 - £35,000	78%	916.22
C	£35,001 - £45,000	89%	1,047.11
D	£45,001 - £58,000	100%	1,178.00
E	£58,001 - £80,000	122%	1,439.78
F	£80,001 - £106,000	144%	1,701.56
G	£106,001 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

2. CALCULATION OF THE COUNCIL TAX BASE 2015-16

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,685	9,935	9,406	6,008	7,350	4,091	2,783	242	47,500
Less - Exemptions / Deductions	919	750	1,010	505	571	233	163	49	4,200
- Adjustment for Single Chargepayers	889	1,031	759	435	437	201	112	6	3,870
Effective Number of Properties	5,877	8,154	7,637	5,068	6,342	3,657	2,508	187	39,430
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	3,918	6,342	6,788	5,068	7,751	5,282	4,180	374	39,703
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									510
Nominal Tax Yield									40,213
Less Provision for Non-Collection - 2.01%									808
Council Tax Base 2015-16 - Number of Band D equivalents									39,405

Non Domestic Rate Income Account

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2014-15 Actual £'000		2015-16 Actual £'000
39,832	Gross rates levied and Contributions in Lieu	42,309
	Less:	
(9,734)	Reliefs and other deductions	(10,877)
(29)	Payment of Interest	-
(267)	Provision for Bad and Doubtful Debts	(241)
29,802	Net Non-Domestic Rate Income	31,191
1,200	Contribution (to)/from national non-domestic rate pool	(3,351)
31,002	Transfers to General Fund	27,840

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2015-16 £	2014-15 £
Industrial and freight transport subjects	7,677,100	6,650,490
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	58,701,043	55,639,870
Commercial subjects:		
Shops	13,418,530	13,262,165
Offices	5,577,590	4,933,370
Hotels, Boarding Houses etc.	6,599,075	6,618,475
Others	1,993,560	1,986,020
Total Rateable Value	93,966,898	89,090,390

2. NON-DOMESTIC RATE CHARGE

	2015-16 Pence	2014-15 Pence
Rate Per Pound	48.0p	47.1p
Supplementary Rate Per Pound for Properties over £35,000	1.3p	1.1p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Group Accounts - Introduction

INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2015-16: Based on International Financial Reporting Standards, places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

Group Statement of Movement in Reserves

This statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation).

Movements in 2015-16	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2014	(46,067)	(669)	(3,742)	(50,478)	(110,479)	(160,957)	(314)	(6,463)	(167,734)
Surplus/(Deficit) on Provision of Services	19,653	-	-	19,653	-	19,653	29	(85)	19,597
Other Comprehensive Income and Expenditure	-	-	-	-	(61,787)	(61,787)	(1,304)	354	(62,737)
Total Comprehensive Income and Expenditure	19,653	-	-	19,653	(61,787)	(42,134)	(1,275)	269	(43,140)
Total Statutory Adjustments (See Page 32 to 33)	(25,813)	-	(652)	(26,465)	26,465	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(6,160)	-	(652)	(6,812)	(35,322)	(42,134)	(1,275)	269	(43,140)
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	38	(2)	367	403	(403)	-	-	-	-
(Increase)/Decrease in Year	(6,122)	(2)	(285)	(6,409)	(35,725)	(42,134)	(1,275)	269	(43,140)
Balance at 31 March 2016 Carried Forward	(52,189)	(671)	(4,027)	(56,887)	(146,204)	(203,091)	(1,589)	(6,194)	(210,874)

The Council's Statement of Movement in Reserves on pages **x to y** gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2015-16.

Group Statement of Movement in Reserves

This statement shows the comparative movement in the year on reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts.

Comparative Movements in 2014-15	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2014	(44,041)	(1,025)	(3,460)	(48,526)	(126,299)	(174,825)	(1,056)	(6,506)	(182,387)
Surplus/(Deficit) on Provision of Services	(4,581)	-	-	(4,581)	-	(4,581)	48	(9)	(4,542)
Other Comprehensive Expenditure and Income	-	-	-	-	18,449	18,449	694	52	19,195
Total Comprehensive Expenditure and Income	(4,581)	0	0	(4,581)	18,449	13,868	742	43	14,653
Total Statutory Adjustments (See Page 34 to 35)	2,900	-	(430)	2,470	(2,470)	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,681)	-	(430)	(2,111)	15,979	13,868	742	43	14,653
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	(345)	356	148	159	(159)	-	-	-	-
(Increase)/Decrease in Year	(2,026)	356	(282)	(1,952)	15,820	13,868	742	43	14,653
Balance at 31 March 2015 Carried Forward	(46,067)	(669)	(3,742)	(50,478)	(110,479)	(160,957)	(314)	(6,463)	(167,734)

Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 32 to 33.

2014-15			Service	2015-16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
111,565	6,921	104,644	Education Services	130,339	7,198	123,141
34,810	28,601	6,209	Housing Services (Non-HRA)	36,436	28,612	7,824
12,676	2,263	10,413	Cultural and Related Services	13,111	2,189	10,922
26,022	4,281	21,741	Environmental Services	22,618	4,375	18,243
25,517	6,980	18,537	Roads and Transport Services	24,726	6,712	18,014
7,903	4,852	3,051	Trading Services	8,092	4,691	3,401
10,735	5,660	5,075	Planning and Development Services	11,626	5,288	6,338
72,584	10,645	61,939	Social Work	77,788	11,660	66,128
			Central Services:			
4,537	95	4,442	- Corporate and Democratic Core	150,319	145,266	5,053
1,758	-	1,758	- Non Distributed Costs	2,478	28	2,450
2,922	1,280	1,642	- Central Services to the Public	3,183	1,249	1,934
2,925	2,877	48	Associates Accounted for on an Equity Basis	2,824	2,795	29
313,954	74,455	239,499	Net Cost of Services	483,540	220,063	263,477

Group Statement of Comprehensive Income and Expenditure

		Other Operating Income and Expenditure:	
	(142)	Net (Gain)/loss on Disposal of Fixed Assets	323
	1,016	Other Operating Income and Expenditure	1,338
	874	Total Other Operating Income and Expenditure	1,661
		Financing and Investment Income and Expenditure:	
	18,125	Interest Payable and Similar charges	17,263
	(2,513)	Interest and Investment Income	(2,926)
	5,161	Net Pension Interest Expense	4,730
	20,773	Total Financing and Investment Income and Expenditure	19,067
		Taxation and Non-Specific Grant Income:	
	(174,877)	General Government Grants	(176,473)
	(16,438)	Government Capital Grants and Other Capital Contributions	(16,922)
	(31,002)	Non-domestic Rates Redistribution	(27,840)
	(43,371)	Council Tax Income	(43,373)
	(265,688)	Total Taxation and Non-Specific Grant Income	(264,608)
	(4,542)	(Surplus)/Deficit on Provision of Services	19,597
	774	(Surplus)/Deficit on revaluation of Fixed Assets	(578)
	17,675	Other Post Employment Benefits (Pensions)	(61,209)
	746	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds	(950)
	19,195	Other Comprehensive Income and Expenditure	(62,737)
	14,653	Total Comprehensive Income and Expenditure	(43,140)

Group Balance Sheet



31 March 2015			31 March 2016	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
281,317		- Other Land and Buildings	258,485	
11,088		- Vehicles, Plant, Furniture and Equipment	10,687	
183,985		- Infrastructure Assets	201,164	
5,820		- Community Assets	5,885	
3,992		- Surplus Assets	2,817	
30,223		- Assets Under Construction	15,486	
	516,425	Total Property Plant & Equipment		494,524
	1,371	Heritage Assets		1,539
	647	Intangible Assets		577
	7,919	Investment Property		8,094
	4,849	Long-Term Debtors		4,897
	2,098	Long-Term Investments		2,497
	2,596	Investment in Associates		2,973
	535,905	Total Long Term Assets		515,101
		Current Assets		
334		Inventories	555	
16,965		Short Term Debtors (Net of Impairment)	18,155	
25		Assets Held for Sale	2,381	
30,000		Short Term Investments	35,019	
23,904		Cash and Cash Equivalents	7,991	
	71,228	Total Current Assets		64,101
		Current Liabilities		
(33,623)		Short-term Borrowing	(18,465)	
(35,578)		Short-term Creditors	(31,915)	
(146)		Capital Grant Receipts in Advance	-	
(1,410)		Provisions	(2,675)	
(1,878)		Other Short Term Liabilities	(1,935)	
	(72,635)	Total Current Liabilities		(54,990)
		Long-term Liabilities		
(141,435)		Borrowing Repayable within a Period in Excess of 12 Months	(141,514)	
(76,743)		Other Long-term liabilities	(74,809)	
(1,566)		Provisions	(1,190)	
(144,738)		Other Long-term liabilities (Pensions)	(94,441)	
(2,282)		Liabilities in Associates	(1,384)	
	(366,764)	Total Long-term Liabilities		(313,338)
	167,734	Total Assets less Liabilities		210,874

Group Balance Sheet



31 March 2015			31 March 2016	
£'000	£'000		£'000	£'000
55,224		Unusable Reserves		
209,599		- Revaluation Reserve	54,847	
(4,516)		- Capital Adjustment Account	194,492	
(144,738)		- Financial Instruments Adjustment Account	(4,165)	
(5,090)		- Pensions Reserve	(94,441)	
		- Accumulated Absences Account	(4,529)	
	110,479			146,204
		Usable Reserves		
3,742		- Capital Funds	4,027	
669		- Repairs and Renewals Funds	671	
46,067		- General Fund Balance	52,189	
	50,478			56,887
	314	Group Reserves		1,589
	6,463	Common Good Reserves		6,194
	167,734	Total Reserves		210,874

The Balance sheet is a snapshot of the value at the 31 March 2016 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

The Unaudited Annual Accounts were authorised for issue on 30 June 2016.

Kirsty Flanagan
Head of Strategic Finance
30 June 2016

Notes to the Group Financial Statements

1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages **x to y**.

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

2. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

Under accounting standards, the Council is required to include the results of the above organisations as “associates” because it has “significant influence” over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Two of the three Joint Boards (SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an “associate” although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

The accounting period for all entities is 31 March 2016.

3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.064m towards Scotland Excel in the 2015-16 financial year.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well-being; promote safety; social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

Notes to the Group Financial Statements

4. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

5. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £7.783m. This gives an overall net asset position for the Group of £210.874m.

All associates have prepared their accounts on a 'going concern' basis. For Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

6. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2015-16 and accounted for £2.904m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2015-16 the Council contributed £0.176m or 4.14% of the net annual running costs and accounted for £0.069m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2015-16 Argyll and Bute Council contributed £1.282m towards estimated running costs and accounted for £2.876m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

Notes to the Group Financial Statements

	2015/16 £'m	2014/15 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.832	2.931
Net (Surplus)/Deficit	0.416	0.237
Long Term Assets	0.752	0.743
Current Assets	0.727	0.730
Liabilities due within one year	(0.120)	(0.101)
Liabilities due over one year	-	-
Pension Liability	(4.236)	(6.115)
Capital and Revenue Reserves	(2.877)	(4.744)

7. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages [x to y](#)) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 34 of the Notes to the Financial Statements on [page X](#) have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.194m.

8. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on [page x](#). Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

Existing Use Value. The market value of a particular Council property, less the difference between the average rental income between public and private sector properties.

Expected Rate of Return on Pension Assets. The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value. This is the price at which an asset could be exchanged in an arm's length transaction less any grants receivable towards the purchase or use of the asset.

Financial Asset. A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash from another entity or a financial right to exchange financial instruments under conditions that are potentially favourable to the Council.

Financial Instrument. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another.

Financial Instruments Adjustment Account. This holds the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

Financial Liability. An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments under conditions which are potentially unfavourable to the Council.

Financial Reporting Standard (FRS). Financial Reporting Standards are issued by the Accounting Standard Board and define proper accounting practice for a given transaction or event.

Fixed Assets. Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Gains/losses on settlements and curtailments. The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is charged or credited to Non Distributed costs in the Comprehensive Income and Expenditure Statement.

General Fund Balance. This contains the net surplus on the provision of Council services combined with any balances from previous years and any contributions to other funds or reserves made during the year.

Group Accounts. The purpose of group accounts is to show the Council's interest in organisations and companies within the Financial Statements. The Council's shares of the assets and liabilities of these other entities are shown in the Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Group Balance Sheet.

Government Grants. Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the authority.

Heritage Assets. Assets which are intended to be preserved in trust for future generations because of their cultural, environmental and historical associations and are held by the Council of the maintenance of heritage.

International Accounting Standards (IAS). International Accounting Standards are issued by the International Accounting Standards Board and define proper accounting practice for a given transaction or event. IAS's take precedence over other accounting standards in the hierarchy of technical accounting standards.

Impairment. A reduction in the value of fixed or financial asset below the valuation held on the balance sheet.

Infrastructure Assets. Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets. Non-financial assets which do not have physical substance but are identifiable and are controlled by the Council.

Interest Cost (Pensions). The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventories. Inventories may comprise the following: goods or other assets purchased for re-sale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances; and finished goods.

Liquid Resources. Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded on the active market.

Materiality. Information is included where the information is of such significance as to justify its inclusion, and omission or misstatement could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

National Non-Domestic Rates Pool. All non-domestic rates collected by local authorities are remitted to the national pool and, thereafter, distributed to Councils by the Scottish Government.

Net Book Value. The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

Net Realisable Value. The open market value of the asset in its existing use, or open market value in the case of non-operational assets, less the expenses to be incurred in realising the asset.

Non-Current Assets. Non-current assets are not expected to be realised within 12 months and are held to provide future economic benefits to the Council.

Non-operational assets. Are assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Officers' Remuneration. All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are subject to UK Income Tax).

Operating Leases. A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

Operating Assets. All items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Past Service Costs (Pensions). The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pensions Reserve. The Pensions Reserve absorbs the timing differences arising from different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

Prior Period Adjustments. Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Public Private Partnerships (PPP). Those partnerships enable the council to purchase services from the private sector and pay a fee based on pre-defined output criteria. The private sector uses this fee to repay loans taken out to finance the building or refurbishment of the assets.

Residual Value. The net realisable value of an asset at the end of its useful life.

Related Party Transactions. A related party transaction is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether a charge is made.

Renewal and Repairs fund. This contains funds credited at the Council's discretion from the General Fund and is available for use on capital or revenue expenditure on council assets.

Revaluation Reserve. Records unrealised gains arising since 1 April 2007 from holding fixed assets not yet realised through sales.

Service Expenditure Analysis (SEA). An analysis which groups together expenditure on services within headings or divisions as defined in the Service Reporting Code of Practice (SeRCOP).

Specific Government Grants. These are grants received from Central Government in respect of a specific purpose or service.

Unusable Reserves. Those reserves which hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences.

Usable Reserve. Those reserves which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful Life. The period over which the local authority will derive benefits from the use of a fixed asset.

ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
17 JUNE 2016

FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER

1. INTRODUCTION

- 1.1 Audit Scotland produced a report in February 2016 entitled “Financial Reporting and Scrutiny: Why the Accounts Matter”. Contained with the report was a list of questions for Elected Members to consider as part of the accounts scrutiny and approval process. This report provides some information to assist Members in answering the questions contained within the report.

2. RECOMMENDATION

- 2.1 Committee is requested to note the content of the Audit Scotland report.

3. DETAIL

- 3.1 The accounts of the Council are a vital part of the accountability framework as they demonstrate how an authority has spent its resources. They provide Elected Members with information to scrutinise the use of funds in each year and to make budgetary decisions for the future.
- 3.2 Audit Scotland have produced a report entitled “Financial Reporting & Scrutiny: Why the Accounts Matter” which sets out the role of financial reporting and the respective roles of the Section 95 Officer, Elected Members and the Auditor in the Accounts process. The full report is included as Appendix 1.
- 3.3 The Audit Scotland report includes a list of questions for Elected Members to consider as part of the accounts scrutiny and approval process. Officers have provided some information to assist Members in answering the questions contained within the report, see Appendix 2.

4. CONCLUSION

- 4.1 Audit Scotland have provided Elected Members with a list of questions to consider as part of the Accounts scrutiny and approval process.

5. IMPLICATIONS

- 5.1 Policy – None.
- 5.2 Financial – None.
- 5.3 Personnel – None.
- 5.4 Equal Opportunities – None.
- 5.5 Legal – None.

5.6 Risk – None.

5.7 Customer Service – None.

Kirsty Flanagan
Head of Strategic Finance
26 May 2016

For further information contact:

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APPENDICES

Appendix 1 – Audit Scotland Report “Financial Report & Scrutiny: Why the Accounts Matter”

Appendix 2 – Questionnaire populated with information from Officers

Financial Reporting & Scrutiny: Why the Accounts Matter



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Financial Reporting & Scrutiny: Why the Accounts Matter

The role of financial reporting

1. Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how an authority has spent its resources. They also record assets used, and liabilities incurred, in delivering services.
2. Audited accounts provide the public with reliable information about the stewardship of funds and the financial position of the authority. They provide elected members with information to scrutinise the use of funds in each year, and to make budgetary decisions for the future.
3. The accounts are prepared based on International Financial Reporting Standards (IFRS). Under local government accounting rules councils make a number of adjustments to the IFRS financial results to determine the impact on the General Fund, and consequently the level of council tax set for future years. For example large adjustments are made for the accounting treatment of fixed assets and pension costs. Councils monitor their financial results relative to the General Fund, and not on an IFRS basis. In taking decisions, it is therefore important that members understand the link between what the accounts show on the council's spending, assets and liabilities, and the budgetary outturn information.

Your role in the accounts process

Role of the s95 officer	Role of elected members	Role of the auditor
<ul style="list-style-type: none"> • Responsible for the preparation and submission of the financial statements, in accordance with proper accounting practice. • To support the Audit Committee in their scrutiny role. 	<ul style="list-style-type: none"> • To scrutinise and approve the accounts. • To consider the financial results reported in setting future budgets and reserves policies. • To consider the annual audit report and hold officers to account on areas of concern reported. 	<ul style="list-style-type: none"> • To provide an independent auditor's report on whether the accounts show a 'true and fair view' of the financial position. • To provide an annual audit report addressed to members and the Controller of Audit, reporting significant audit findings.

Developments in financial reporting in 2014/15

4. In 2014/15 council's faced the challenge of producing the accounts to tighter timescales as prescribed by new accounts regulations¹.
5. External auditors said that councils generally met this challenge well. They commented as follows:
 - The councils did well to bring forward the completion of the accounts for approval by members by 30 September.
 - Members welcomed receiving the audited accounts for approval alongside the auditors' annual audit reports.
6. The auditors also commented on some areas for improvement:
 - The accounts are complex and lengthy documents. Some s95 officers could do more to explain to the Audit Committee the role of the accounts, and what they show about the council's performance.
 - The management commentaries could do more to explain the overall picture regarding the council's financial performance and challenges.
 - Some members need more guidance on what they are looking for when reviewing and approving the accounts.
 - It is disappointing that members do not ask more questions about the issues raised in our annual audit reports.
 - The standing orders in some councils need to be updated to reflect the processes adopted for approving the accounts under the new regulations.
7. In light of these key messages we have compiled a list of questions, at Appendix 1, for members to consider when reviewing the accounts.
8. Your local auditor will request an opportunity to discuss this paper with members of the audit committee prior to the June meeting at which they consider the draft accounts. The expectation is that the audit committee members could then use the questions in considering the accounts and annual audit report at their meetings in June and September.
9. This paper complements the messages in the 2011 Local Authority (Scotland) Accounts Advisory Committee's publication 'Holding to Account, Using Local Authority Financial Statements.'

¹ The Local Authority Accounts (Scotland) Regulations 2014

Appendix 1

Questions for elected members to consider as part of the accounts scrutiny and approval process

Stewardship of the council's funds	Your answer
1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?	
2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?	
3. Does the annual audit report provide you with assurance that: <ul style="list-style-type: none"> • financial management of the council is effective? • financial sustainability of the council is demonstrated? • the council reports on its financial and service performance in a transparent way? • the council demonstrates Best Value in how its funds are used? • management have responded appropriately to any audit recommendations? 	
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the council?	
5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?	

6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future?	
7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future?	
8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future?	
9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital?	
10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future?	
11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council?	
12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources?	
13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way?	
14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future?	

Appendix 2

Questions for elected members to consider as part of the accounts scrutiny and approval process

Stewardship of the council's funds	Your answer
1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?	Independent assurance is contained within the external auditor's report.
2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?	The information is contained within the Annual Governance statement.
3. Does the annual audit report provide you with assurance that: <ul style="list-style-type: none"> • financial management of the council is effective? • financial sustainability of the council is demonstrated? • the council reports on its financial and service performance in a transparent way? • the council demonstrates Best Value in how its funds are used? • management have responded appropriately to any audit recommendations? 	Information on these areas is contained within the external auditor's report.
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the council?	The management commentary includes an explanation of the financial outturn, the movement in reserves and balances and any significant movements in the balance sheet and sets out the future outlook.
5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?	An explanation is provided within the management commentary and in the covering report to the annual accounts.

<p>6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future?</p>	<p>An explanation is provided in the management commentary, the covering report to the annual accounts. There is also a separate report on earmarked reserves.</p>
<p>7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future?</p>	<p>Explanation of the capital outturn is included in the management commentary and the supporting papers to the annual accounts.</p>
<p>8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future?</p>	<p>The Annual Treasury Monitoring report provides more explanation on these aspects.</p>
<p>9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital?</p>	<p>The Annual Treasury Monitoring report provides more explanation of these aspects.</p>
<p>10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future?</p>	<p>The detail of provisions are contained within the management commentary and also included in a note to the Accounts. Any significant liabilities which cannot be properly quantified at the year-end are disclosed as contingent liabilities.</p>
<p>11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council?</p>	<p>An explanation of the movement is provided in the management commentary and covering report to the accounts.</p>
<p>12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources?</p>	<p>An explanation of the movement is provided in the management commentary and covering report to the accounts.</p>
<p>13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way?</p>	
<p>14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future?</p>	<p>There is a section of the future outlook within the management commentary.</p>

Kirsty Flanagan
Head of Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
PA31 8RT

12 May 2016

Dear Kirsty

Argyll and Bute Council
Review of Internal Controls 2015/16

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Argyll and Bute Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

In accordance with ISA 330 (The Auditor's Procedures in Response to Assessed Risks), specifically paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

In 2013/14 we revised our audit methodology to allow us to obtain assurances from previous years' audit work where no significant risks were identified. Our controls work has, therefore, been more focused compared to previous years with detailed testing of the general ledger and cash and banking systems. For the Council's other main financial systems we have relied on prior years' audit work.

Where we have placed reliance on prior years' audit work, we have tested the key controls by undertaking a "walkthrough test". This involved updating our system controls and identifying whether there have been any changes to the control environment. We then select a transaction at random and checked that internal controls have been applied correctly at each stage of its processing.

The table overleaf summarises our approach to the auditing of key financial systems in 2015/16 including where we have placed formal reliance on aspects of the work of internal audit. Internal audit findings do not feature in this report as they are reported separately by the Chief Internal Auditor.

Key System	External audit coverage	Reliance on aspects of internal audit work
Trade Payables	✓ *	✓
Payroll	✓ *	✓
Trade Receivables	✓ *	✓
Financial Ledger	✓	✓
Cash, Income and Banking	✓	
Council Tax Billing and Collection	✓ *	✓
Non Domestic Rates Billing and Collection	✓ *	✓
Treasury Management	✓ *	✓

* Reliance placed on previous years' audit work

Audit findings

A summary of those areas where identified risks require management consideration is included in appendix A. Some less significant issues were also identified; these were resolved in discussion with management and do not feature in this report. The following paragraphs outline the more significant findings arising from our audit work.

Cash, Income and Banking

The Expenditure Bank Account reconciliation for 30 November 2015 was prepared and approved on 17 December 2015.

Efforts should be made to have all bank reconciliations completed and approved closer to the previous period end. The risk of delay in reconciling accounts is that significant errors or omissions are not detected sufficiently early for effective corrective action to be taken.

A large and growing number of journal entries are required to agree the financial ledger with the expenditure bank account balance each month. The majority of these relate to payroll queries, over/under payments, timing differences and other adjustments awaiting confirmation before being able to be cleared. The November 2015 month end reconciliation included journal adjustments required of £3,154,052. Two amounts totalling £3,178,826 related to HQ transfers, leaving journals of £24,774 still to be posted. The Creditors Supervisor was chasing up all differences and taking appropriate steps to clear these with an aim to have them cleared by the year end.

Review of the October and November 2015 Income Bank Account reconciliations identified that items in the bank statement not in the financial ledger from prior periods were not significant. However, they included two items from 2014 totalling £22,893. We would have expected these long outstanding reconciling amounts to have been resolved.

Management should ensure that reconciling items are cleared promptly.

Trade Payables

Monthly accounts payable reconciliations are prepared by the Creditors Supervisor. As at 27th January 2016 there was no evidence of a secondary check on the reconciliations for October and November 2015. The explanation given was that the Creditors supervisor is based in Campbletown and his manager is based in Lochgilphead; the distance between locations making it harder for timely review.

Reconciliations should be reviewed promptly to ensure any discrepancies or errors are followed up in a timely manner.

As reported last year, prior to the Oracle upgrade the Council were able to run a report to facilitate a random check on bank accounts changes. This is no longer possible since the upgrade. However, the council are due to get a replacement system and have asked that this functionality is made available.

Non Domestic Rates Billing and Collection

Postings between the cash receipting system and the local tax systems are checked on a daily basis by the cash team. A full reconciliation (the NDR Raw Cash reconciliation) is carried out monthly by the Revenues Supervisor.

Reconciliations contained no evidence of having been reviewed by a second person after completion. Management commented last year that although it is not considered to be a risk, going forward the Revenues & Benefits Manager would countersign these along side the bank reconciliations.

Council Tax Billing and Collection

Although supporting documentation was on file for second home discounts it was noted that the last reviews were in March 2013 when claimants were asked for confirmation of 25 days residence in the year. Ideally review forms would be sent on a more regular basis to confirm the resident is still eligible for the discount. Without regular reviews there is a risk that discounts are being given to residents who do not qualify for the relief.

Overall Conclusion

Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. This allows us to take planned assurance on these systems for our financial statements audit work in 2015/16.

Risk Identification

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to Argyll and Bute Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Kirsty Flanagan
Head of Strategic Finance
Argyll and Bute Council

12 May 2016

Please do not hesitate to contact myself (0131 625 1931) or Russell Smith (0131 625 1949) if you have any queries on this management letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Jamieson', with a horizontal line extending to the right.

David Jamieson
Senior Audit Manager

Argyll and Bute Council
Review of Internal Controls 2015/16

Appendix A - Action Plan

No.	Audit finding	Control Risk	Proposed management response & action	Responsible officer	Date
Cash, Income and Banking					
1.	The Expenditure bank account is not always prepared and reviewed on a timely basis.	Errors or omissions may not be identified promptly.	It is normally done within 2 weeks of the month end. The December reconciliation was a few days later than planned. We will ensure it is done to planned timescale wherever possible.	Procurement & Commissioning Manager	Already in place
2.	Reconciling items on the bank account reconciliations are not being cleared promptly.	Reconciling items may not be rectified appropriately.	We have been unable to get Payroll to journal these older reconciling items and will now write them off. All new reconciling items are being journalled promptly.	Procurement & Commissioning Manager	June 2016
Trade Payables					
3.	Accounts payable reconciliations are not being reviewed on a timely basis	Discrepancies may not be identified and reconciling items may not be followed up promptly.	These will now be reviewed within 2 weeks of month end.	Procurement & Commissioning Manager	June 2016

No.	Audit finding	Control Risk	Proposed management response & action	Responsible officer	Date
4.	Although adequate controls are in place around any changes made to suppliers' bank details, there is currently no process in place to allow the random checking of entries.	Changes to suppliers' bank details could be made incorrectly.	We will again press our supplier to provide a report to allow these checks to be re-instated, and will implement this if a report is made available.	Procurement & Commissioning Manager	June 2016
Non Domestic Rates Billing and Collection					
5.	The monthly NDR Raw Cash reconciliation is not reviewed by a second person after completion.	Monthly reconciliations may not be carried out correctly.	This will now be done for all reconciliations in 2016/17 onwards.	Revenues & Benefits Manager	May 2016
Council Tax billing and Collection					
6.	The last review carried out on claimants receiving second home discounts was in March 2013.	Discounts may be awarded to residents who are not eligible for the relief.	This is now scheduled using student resource starting June 2016.	Revenues & Benefits Manager	September 2016

Argyll and Bute Council

Review of the 2016-17 budget setting process



Scope of the audit

1. We reviewed aspects of the council's 2016-17 budget setting process as part of our annual audit responsibilities on financial management and sustainability. The audit recognises that the approval of the budget is a political one for the elected members of the Council to make. The review covers the processes followed for scrutinising and approving the annual budget, it does not make any comment on the specific decisions made by the members. Correspondence received by Audit Scotland was considered as part of this work.
2. Audit Scotland cannot overturn any decisions made by any council. We make recommendations for improvement and then monitor progress in implementing these. Recommendations from this audit work are detailed in Appendix 2. We expect this report to be considered by the council's Audit Committee. We will also share it with the correspondents who contacted Audit Scotland about the budget setting process.

Background

3. The budget setting process for 2016-17 has been challenging for all councils, with the financial settlement being confirmed close to the budget setting deadline. The level of settlement was also lower than had been anticipated by most councils. In Argyll and Bute this increased the 2016-17 estimated budget gap to be filled, to deliver planned services, from between £7.9 million and £8.8 million, to £10.052 million.
4. On 11 February the Council approved a one year budget for 2016-17. We have identified some areas for consideration arising from this budget which are detailed below.
5. The intention is to set a three year budget covering 2017-18 to 2019-20 when the results of the Spending Review are known.

Audit findings

Scrutiny of the budget

6. The budget approval is a vital part of the council's accountability arrangements, demonstrating how it plans to fund its services. To enable all members to effectively scrutinise the budget proposals, members need adequate time to consider the budget proposals being made.
7. Throughout the year members have been invited to seminars in respect of Service Choices, which have been subject to public consultation, and are a key element of the budget proposals for 2016/17.
8. Draft budgets prepared by the Political Groups are prepared with financial advice from the Head of Strategic Finance as proper officer in terms of Section 95 of the Local Government (Scotland) Act 1973 and consulted on with her, in confidence, prior to the Budget Setting Meeting.
9. It is recognised that the budget setting timetable for 2016-17 and issuing of papers has been particularly challenging this year. In our opinion, to promote transparency and enable informed scrutiny by all members, it is good practice for budget proposals to be tabled in advance of the Council meeting at which the budget will be set.
10. The agenda for the Council meeting included access to a Budgeting Pack and Revenue Budget Overview report, prepared by the S95 officer, the Head of Strategic Finance. These papers were available on the council's website in advance of the meeting. The covering paper proposed a recommendation to "approve the revenue budget for 2016-17 as set out in the budget overview report. This would result in a surplus of £0.463m." The budget pack explained how this was arrived at and an appendix showed a calculation of the figures. It included saving options identified through the Service Choices public consultation process of £7.398 million and Management/Operational savings of £1.044 million which are able to be taken forward as part of normal business, without any further approval.
11. At the Council meeting an Administration Budget Motion was tabled which recommended approval of the Budget Overview Report subject to what we consider to be significant changes. The proposed changes to the budget were documented in the paper that included the Administration motion. Alternative proposals, also containing significant changes, were also tabled and considered by the Council from the SNP Council Group and the Reform Group.
12. Tabled papers at meetings is not precluded by the council's standing orders and the members voted to approve the revised budget included in the Administration motion on that basis. However, given the significance of the changes to the budget included in the motion and alternative proposals, in our opinion, this limited the ability of elected members and the public to raise informed questions prior to its consideration and approval.

Clarity of Budget Papers and Minutes

13. S95 of the Local Government (Scotland) Act 1973 provides:- "Without prejudice to section 69 of this Act, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs"; If a budget cannot demonstrate that the approved level of balances are attained at the end of an agreed financial planning period the budget may not meet the requirements of S95.
14. The budget papers and minutes of the meeting should therefore provide a clear trail to the elected members and the public, of the advice of the S95 officer provided at the meeting and the decisions taken.
15. The Administration Budget Motion Paper explains the components of its revised budget but it does not show a calculation to demonstrate the impact of its budget on the general fund reserves at the year end. In our opinion this should be presented more clearly. The Head of Strategic Finance's view is that whilst there is no tabular form of calculations demonstrating that there was a balanced budget, she feels the key figures were set out in the Administration Budget Motion and in her opinion the Administration Budget Motion represents an achievable and balanced budget. She further explained that she has additional papers demonstrating the build-up of the figures that were not put to the Council. From the explanations provided we have clarified the agreed budget at Appendix 1. This shows that the budget should result in the general fund increasing at 31 March 2017 by £0.003 million.
16. The Administration Budget included further operational and management savings of £1.674 million on top of those included in the Budget Overview Report. The Head of Strategic Finance has told us that at the Council meeting she explained to members that in her opinion these savings were deliverable but would be harder to achieve than those totalling £1.044 million already recognised in the budget pack. This is not shown in the minute of the meeting.
17. The minute of the council meeting explaining the budget approval is very brief. It does not include the advice given by the Head of Strategic Finance about the budget motion approved by the members. Whilst it is not minuted, the Head of Strategic Finance has confirmed to us that in her opinion the Administration Budget Motion represents an achievable and balanced budget. She explained that she had been involved in discussions about all three budget proposals considered by the Council at the meeting and was satisfied that they were all competent budgets, fit for member consideration. The approval of the budget by the majority of elected members further endorses the validity of the budget.
18. Officers have explained that it is normal practice not to minute advice given by officers unless members chose not to follow officers' advice or an issue of competency is attached to the motion. However in view of the significance of the budget setting process, and the importance of the S95 officer's advice on it, we would recommend that procedures for minuting officer advice and council decisions should be reviewed to record this more fully.

Conclusions

19. It is recognised that the budget setting timetable for 2016-17 and issuing of Council papers has been particularly challenging this year. We are satisfied that the Head of Strategic Finance and the members of the Council have taken appropriate action to satisfy themselves that the budget approved on 11 February for 2016-17 is a balanced and achievable budget.
20. The Budget Motion approved by the Council includes significant changes to the budget, from the budget pack recommended by the Head of Strategic Finance, included in the agenda papers. Tabling of the Budget Motion and other supporting papers at meetings is not precluded by the standing orders and the members voted to approve the motion on that basis. However, in our opinion, this limits the ability of elected members and the public to raise informed questions prior to its consideration and approval.
21. The Best Value audit report in December 2015 concluded that the council should establish a more open and transparent culture and style of working. In this context, members may wish to consider the transparency of the final stages of the budget setting process and how effective it is at promoting and demonstrating scrutiny of the options considered.
22. The approved Budget Motion paper did not include a clear breakdown of how the budget balanced. We are satisfied from discussions and our own calculation at Appendix 1 that the budget approved represents a planned balanced budget. It is now for the council to deliver on these plans. The format of budget proposal papers should be reviewed by members for future years.
23. The minute of the 11 February Council meeting explaining the budget approval is very brief and does not include any advice given by the Head of Strategic Finance in relation to the Budget Motion or alternative proposals. As a result members of the public have no evidence of the discussions and the endorsement of the budget by the Chief Financial Officer. We recommend that the process for minuting important officer advice and council decisions is reviewed to ensure it is comprehensive and transparent.

Appendix 1

Agreed Budget Proposal

	£ million	£ million
Budgeted cost of services		247.228
Funding:		
Scottish Govt	196.176	
Council Tax Income	41.000	237.176
Budget gap		10.052
Service Choices Proposals agreed	5.186	
Operational/ management savings included in budget pack	1.044	
Further savings proposed by members	1.674	
Fees and charges increases at 6%	0.610	
Social work/ social care savings	1.541	
Total Planned Savings		10.055
Increase in reserves		0.003

Appendix 2

Recommendations

		Management Response	Timetable/ Responsible officer
1	To facilitate more transparent scrutiny of budgets, members should consider circulating proposals for significant changes to the Budgeting Pack in advance of the Council meeting, ideally with agenda papers.	The council is still to confirm its response to this action.	End of June 2016 - Head of Strategic Finance
2	Future budget proposals should include a clear breakdown of how a balanced budget is made up.	Officers will ensure that advice is given to members in order that budget proposals clearly demonstrate that they represent a balanced budget.	As part of budget planning process for 2017-18 (by February 2017) – Head of Strategic Finance
3	The process for minuting officer advice and council decisions on significant items such as setting the budget should be reviewed to ensure minutes are comprehensive and transparent.	The process for minuting the Council's budget meeting will be considered, taking into consideration best practice from other Councils.	As part of budget planning process for 2017-18 (by February 2017) – Head of Governance and Law

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****CHIEF EXECUTIVE****17 JUNE 2016**

RISK MANAGEMENT AND AUDIT

1.0 EXECUTIVE SUMMARY

The Audit Committee requested an annual report from the Chief Executive on the overall approach to risk management and an outline of the current position /progress on how strategic risks were being addressed and linkage to internal and external audit.

This is my first report as the Chief Executive which details key issues and developments in relation to risk management and related activities around internal and external audit.

Specific reference is made to the strategic risks relating to population and economic decline and finance expenditure and detail is provided on the mitigations in place to address these.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

CHIEF EXECUTIVE

17 JUNE 2016

RISK MANAGEMENT AND AUDIT

2.0 INTRODUCTION

2.1 This report sets out a summary of the key issues / developments in relation to risk management and related activities around internal and external audit. The report sets out how as Chief Executive I will have oversight of these areas and also sets down some of the important developments over the last year. The report is intended as a high level overview and further detail on any individual aspect can be provided.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Audit Committee:

(i) note the terms of this report.

4.0 DETAIL

Strategic Risks & Priorities

4.1 The Strategic Risk Register (SRR) is continuously monitored and is subject to a formal bi-annual review, in August and February in line with Service Planning and Budget Setting processes.

4.2 Key risks identified in the SRR include population and economic decline and also finance expenditure. These remain priority areas for the Council and a range of mitigations are in place in an attempt to address these risks. A list of examples of mitigations in place can be found in appendix 1 of this report. As requested by the Audit Committee last year, I have provided an update in relation to the challenges, progress and status of these.

4.3 The Single Outcome Agreement (now retitled Local Outcome Delivery Plan (LOIP)) sets out an overall objective of economic development and reversing population decline - "Argyll and Bute's economic success is built on a growing population". There are 6 outcomes within the LOIP which address a number of the strategic risks in the SRR.

4.4 The delivery plans for the 6 LOIP outcomes are currently under review and will be completed over the summer. These delivery plans identify

both the key partners and the actions necessary to deliver on the LOIP outcomes. They are live documents and as such they will be subject to future review and change in line with Community Planning governance arrangements in order that they continue to represent the actions of partners to meet the outcomes. The success measures in the new delivery plans will relate to our long term objectives.

- 4.5 A key challenge and priority for the Council is improving engagement and work together with our citizens and communities. Part of this will be about cutting red tape and moving the focus from process to outcomes and speeding up the pace of implementation. Focusing on the impact of what we do will also prioritise prevention and early intervention work wherever possible.
- 4.6 It is by working in partnership with others that we will achieve what we need to for Argyll and Bute. Developing new, positive relationships with our communities on an ongoing basis is a top priority for me as the new CEO as well as for the organisation.
- 4.7 Local government funding remains a challenge so supporting the Council to develop a sustainable, long term financial strategy, based on transforming how we work, will continue to be a key part of my work. We have made a lot of progress in transformation in recent years as we respond to change and I look forward to continuing this journey.
- 4.8 Members of the Audit Committee may be aware that the Argyll and Bute Economic Forum launched a report in February 2016 setting out their views to growing our economy. The forum is private sector led and over the last year has looked from a business perspective into the challenges and opportunities to further growing our economy.
- 4.9 Focusing on sectors of competitive advantage, sustainable growth and job creation, the report sets out recommendations on tourism, food and drink with particular emphasis on aquaculture. In addition, the report sets out further recommendations on youth and education, some of our main towns and mitigating barriers to economic growth. This independent report can be considered to be fully aligned with the strategic objectives of the Community Planning Partnership and is being used to inform strategic plans for the Council.
- 4.10 Finance Expenditure and Income continues to be identified as a Strategic risk. The Council faces a challenging financial outlook due to the national /global economic circumstances and more locally population decline. This is also a time when significant investment is required to address the commitments set out in the LOIP and the key risks around economic and population decline etc in the SRR. The Council faces the challenge of a reducing resources base and increasing costs and demands for significant investment. It is essential the Council resources

are allocated to its priorities. As mentioned above the challenge going forward will be to shift focus from process to outcome.

- 4.11 A key risk within Finance Expenditure relates to supporting the Council to develop a sustainable, long term financial strategy based on an effective transformation programme and this will be a top priority for me as the new CEO.
- 4.12 As members may be aware, the Council agreed at its budget several one off ambitious investments to support the Single Outcome Agreement's overarching vision to build the economy through a growing population. These investments include the Inward Investment Fund, the Rural Resettlement Fund, and the Lochgilphead and Tarbert Regeneration Fund.
- 4.13 In addition the Council also agreed at its budget meeting to create the Asset Management and Investment Fund which will generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.
- 4.14 Further information on these funds was considered by the Policy and Resources Committee on the 12 May 2016 and the reports can be viewed online at;
<https://www.argyllbute.gov.uk/moderngov/ieListDocuments.aspx?CId=544&MId=7095&Ver=4>
- 4.15 In addition, the Council also agreed at its budget to the creation of the 'Argyll, Lomond and the Islands Rural Regeneration Initiative' as the new flagship regeneration programme for the Council which will be designed to attract more people to live and work here securing employment and prosperity for our region.
- 4.16 This initiative contains a package of measures around use of reserves which will see an investment of £75m in Argyll and Bute. This includes existing allocations for major capital regeneration projects, schools etc.
- 4.17 The initiative will encompass all existing and new strategies, plans and activities relating to population and economic growth into a single and cohesive programme to assist with delivering our overall objective. This coordinated approach will support making improved linkages across projects and initiatives assist with identifying gaps and ensuring new projects are aligned.
- 4.18 The Integration of Health and Social Care is now live. The partnership has developed an initial Risk Management Strategy document which outlines an approach and framework for managing risk. Both Council officers and NHS officers have had input to the process and are satisfied

that the approach adopted, provides a satisfactory foundation which will allow effective management of risk. As Risk Management develops and embeds with the new partnership guidance will be revised accordingly.

- 4.19 In my initial year I will also focus on a revision to the planning and performance management framework to support improved scrutiny, improve the accessibility of the framework and reduce the bureaucracy associated with performance reporting. I will focus on the development and embedding of a customer first culture, staff empowerment and a review of processes to speed up implementation and proportionate governance of change. Prevention and early intervention are made more difficult by the current financial context but require to be central to our improvements and the delivery of a longer term and sustainable financial plan
- 4.20 There is no single approach to addressing the challenge facing Argyll and Bute. The combination of factors /actions set out in this report should move us in the right direction. This progress will be monitored and reported periodically to identify progress and any additional or alternative action required.

Operational Risks

- 4.21 Operational Risk registers are available within each service and our risk management approach allows for clear links to service outcomes. Operational Risks are kept under review on an ongoing basis with risk forming part of regular performance scorecard reporting.
- 4.22 As part of the service planning process the service outcomes are reviewed to ensure the demand risks facing a service are being addressed. The Council has agreed a demand and supply approach to operational risk identification.
- 4.23 Demand risks represent the key challenges facing the Council that are driven /imposed externally through others having demands, expectations or obligations for the Council to meet and are directly linked to service outcomes.
- 4.24 Supply risk are defined as the risks related to how we plan, organise and deliver our services to meet our demand risks. To ensure consistency of approach across services supply risks are categorised into areas such as Human Resources, Finance, Assets, Information etc.

Financial Risks

- 4.25 A process for identifying key financial risks and their potential budgetary impact was established a number of years ago. This was further

developed to ensure that financial risk information was reported in a summary format each quarter as part of the budget monitoring report.

- 4.26 There remains scope to improve the process and approach to monitoring and reporting financial risks and ensuring there is a collective understanding of the information. A separate financial risks report is now be prepared and reported to Policy and Resource Committee every 2 months.

Strategic Risk Group

- 4.27 The work of the Strategic Risk Group (SRG) i.e. Risk Management, Health and Safety, Business Continuity and Civil Contingencies now form part of the SMT business agenda with each area reporting progress on an individual basis. In respect of Risk Management Activity, SMT considered reviews of SRR and ORRs, results of CIPFA benchmarking, updates to risk management policy and guidance together with progress reports on developmental issues.

Risk Management Improvement

- 4.28 The Council continues to be a member of the CIPFA Risk Management Benchmarking Club. The results of the 2015 exercise showed continued improvement with an overall rating of Embedded and Integrated.
- 4.29 The development of an Assurance Map during 2014 was undertaken by Grant Thornton and the internal audit team and was an important step in our risk management activity. Assurance mapping involves mapping coverage against key risks utilising a “three lines of defence model” being;
- Front line /business operations
 - Oversight of management activity
 - Independent assurance providers.
- 4.30 This is now programmed as an annual report and provides management with additional assurance that there were no significant or material gaps in our coverage.

Members Training

- 4.31 At the request of the Policy and Resources committee a training session took place for members which focused on the Strategic Risk Register and Risk Appetite.

Internal Audit

- 4.32 Internal Audit continues to play a key role in Assurance and Risk. The Audit plan provides coverage on some key risk areas and Management continue to place reliance on the good work of the service. During the year the Chief Internal Auditor met with the previous Chief Executive with regular briefings taking place on all audit matters. I have continued this practice this year. These briefings cover progress with the audit plan, considering the key issues arising from audit reports, reviewing internal audit performance and discussing internal audit development issues.
- 4.33 I will continue to receive copies of all internal audit reports and the Chief Internal Auditor has direct access to me (and vice versa) should this be required. I receive a briefing on the Audit Committee papers. It is important that management address action agreed as part of an audit and each month at SMT we review progress on all outstanding audit recommendations. We need to ensure that our Services engage with Internal Audit on a timely basis.

External Audit

- 4.34 I will continue the trend of my predecessor to meet the Council's external auditors on several occasions during the year. A meeting is always held to discuss the Assessment and Improvement Plan prepared jointly by all audit and inspection agents. With the Head of Strategic Finance I have the opportunity to comment on the proposed external audit plan and fee level. During the year I will be able to comment on all external audit reports at the draft stage.
- 4.35 In December 2015, the Accounts Commission published their findings on the Controller of Audit's Statutory Report on the Council with regards to Best Value and focused on the Council's;
- Political management arrangements.
 - Scrutiny
 - Roles and relationships, including between members and officers.
- 4.36 The Commission findings are as follows;
- a) Acknowledges and welcomes the progress by the council since 2013 in relation to improved governance, decision-making and scrutiny

arrangements and the improving relationships between political groups and between members and officers.

- b) The Commission also considers that members and senior officers need to consolidate this progress by continuing to improve the council's openness, transparency and how it involves its communities in decision-making and scrutiny, in order to build the trust and confidence of service users and the public. More can be done to ensure a more effective contribution from area committees.
- c) The Council's current approach to the scale of the financial challenge it faces is not sustainable. This approach urgently needs to be more clearly linked to the council's priorities and based on rigorous appraisal of options for service redesign.
- d) The Commissions notes with disquiet the dysfunctional relationships which persist between a number of individuals. The Commission is firmly of the view that the interests of the public are best served by a shared commitment by all parties to maintaining constructive relationships and a high standard of conduct.

4.37 In January 2016, the Council considered these findings and responded as follows;

- a) The Council welcomes the findings, particularly in relation to the progress that the Council has made; the improvements in political and managerial leadership, decision making and scrutiny with a consequent reduction in risk.
- b) Welcomed the recommendations to consolidate progress and build on this to ensure a sustainable future particularly at a time of significant financial challenge.
- c) Agreed to accept the recommendations and the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings.

4.38 As the new Chief Executive, it is my intention to develop the Improvement Plan for the consideration of the Council and will submit to the Audit Committee upon its approval by the Council.

5.0 CONCLUSION

5.1 This is my first report as Chief Executive to the Audit Committee and I recognise that the Council exists in a complex and challenging environment. The Strategic Risk Register continues to be the primary document that identifies the key challenges and risks facing the Council. There are a range of organisational procedures in place to address this including operational risk registers and service plans etc. I can confirm that Internal Audit is free to act independently and objectively and remains free from interference by any element in the Council.

6.0 IMPLICATIONS

6.1 Policy – None.

6.2 Financial – None.

6.3 Legal – None.

6.4 HR – None.

6.5 Equalities– None.

6.6 Risk– None.

6.7 Customer Service– None.

Cleland Sneddon, Chief Executive
17 June 2016

For further information contact: Kevin Anderson, Chief Internal Auditor 01369
708505

APPENDICES

1. Risk Mitigations

Appendix 1 Risk Mitigations

No	Activity	Update / Challenge / Progress
1	Argyll Lomond and the Islands Rural Regeneration Initiative. <ul style="list-style-type: none"> • Asset Management Fund £2m • Inward Investment Fund £1m • Rural Resettlement Initiative £0.5m • Lochgilphead and Tarbert Regeneration Fund £3m 	New all-encompassing flagship regeneration programme. <ul style="list-style-type: none"> • A new initiative to generate income for the new council. • A new initiative to attract inward investment • A new incentive scheme to encourage people to settle in Argyll and Bute. • A new initiative to promote regeneration and economic development in the area.
2	Argyll and Bute Economic Forum	The report issued by the private sector led forum in February 2016 informs strategic plans of the Council towards achieving our overall objectives.
3	CHORD Regeneration Programme	The programme is significantly advanced with many of the projects now complete including Campbeltown and Helensburgh. In Rothesay the Townscape Heritage (TH) Project was completed and the Council is currently bidding for a second TH for the town after an initial stage 1 approval. The Council continues to take forward a number of key strategic developments at various stages as follows; <ul style="list-style-type: none"> • Rothesay Pavilion • Queens Hall, Dunoon • Public realm and maritime visitor infrastructure, Oban.
4	Lorn Arc TIF	Council is recruiting new project managers to progress this initiative.
5	Longer term financial strategy based on an effective transformation programme.	A priority as new CEO, in conjunction with the budget process for 17/18, work will be initiated to develop a longer term financial plan.
6	Restructuring Economic Development and Strategic Transportation	Restructure approved by Council and almost complete with a number of new posts now filled and recruitment at an advanced stage for final posts.
7	Partnership Engagement	As new CEO, will seek to enhance existing partnership working significantly developed by my predecessor and develop new ones where appropriate.

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****17 JUNE 2016**

INTERNAL AUDIT CHARTER

1.0 EXECUTIVE SUMMARY

1.1 This report outlines the proposed changes to the Internal Audit Charter. The Internal Audit Charter has been updated to include the new assurance levels as agreed at the March meeting of the Audit Committee.

2.0 RECOMMENDATIONS

2.1 The Audit Committee to approve the updates to the Internal Audit Charter.

3.0 DETAIL

3.1 Under the Public Service Internal Audit Standards (PSIAS), Internal Audit is required to prepare an Internal Audit Charter.

3.2 The Chief Internal Auditor will review the Internal Audit Charter and present it to senior officers within the Council and the Audit Committee for approval on a biennial basis.

3.3 The Internal Audit Charter is expected to:

- define the scope of internal audit activities
- establish the responsibilities and objectives of internal audit
- establish the organisational independence of internal audit
- establish the accountability, reporting lines and relationships between the Chief Internal Auditor (CIA) and:
 - the 'board' (the audit committee)
 - those to whom the CIA may report functionally
- recognise that internal audit's remit extends to the entire control environment of the organisation
- establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities
- the general arrangements for appointing staff and the skills required
- the role of internal audit (the scope and also limitations) in any fraud-related work
- the arrangements for avoiding conflicts of interest when carrying out non-audit activities, and

- a definition of the term 'board' (for the purposes of internal audit activity).

4.0 CONCLUSION

4.1 The Internal Audit Team has updated the Internal Audit Charter to include the new assurance levels agreed at March Audit Committee.

5.0 IMPLICATIONS

5.1 Policy – None

5.2 Financial - None

5.3 Legal - None

5.4 HR - None

5.5 Equalities - None

5.6 Risk - None

5.7 Customer Service - None

**Kevin Anderson - Chief Internal Auditor
17 June 2016**

For further information please contact: Internal Audit (01369 708505)

APPENDICES:

1. INTERNAL AUDIT CHARTER



Internal Audit Charter

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1 INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards) detailed in the PSIA. The Chief Internal Auditor will review the Internal Audit Charter and present it to senior officers within the Council and the Audit Committee for approval on a biennial basis.

The authority for Internal Audit to operate in Argyll and Bute Council ("the Council") is contained in the Council's Standing Orders, in section 4.6 to 4.9 of the Financial and Security Regulations and the Local Code of Corporate Governance. This Internal Audit Charter expands upon that framework, defines the detailed arrangements and sets out Internal Audit's strategy for discharging their role and providing the necessary annual assurance opinion.

Argyll and Bute Council's Internal Audit will comply with the PSIAS and will apply these standards to all Internal Audit service providers, whether in house, shared services or outsourced.

2 DEFINITION

Internal auditing is an independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Argyll and Bute Council.

It assists Argyll and Bute Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the council's risk management, control, and governance processes.

3 ROLE

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work at Argyll and Bute Council:

- the 'board' refers to the Council's Audit Committee which has delegated responsibility for overseeing the work of Internal Audit;
- 'senior management' is defined as the Chief Executive and members of the Council's Senior Management Team; and
- 'Chief Audit Executive' refers to the Chief Internal Auditor.

4 PROFESSIONALISM

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). These include the 4 principles set out in the PSIAS of integrity, objectivity, confidentiality and competency.

Disciplinary procedures of professional bodies and the Council may apply to breaches of this Code of Ethics. Additionally, internal auditors are bound by the rules of confidentiality set out in their local conditions of service. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles and will adhere to relevant policies and procedures.

5 AUTHORITY

The Council has given Internal Audit, for the purpose of its audit work, full, free and unrestricted access at any reasonable time to all the Council's records and other documentation (electronic and manual), personnel, Elected Members, premises, assets, and operations of the Council and partner organisations. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit, investigation, or consultancy work. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

6 ORGANISATION

Internal Audit reports to the Head of Strategic Finance (s95 officer) who is a member of the Strategic Management Team. The Head of Strategic Finance (s95 officer) reports to the Chief Executive.

However, there is also an unbroken line from the Chief Internal Auditor to the Chief Executive and the Council (through the Audit Committee) which can be used if, in the opinion of the Chief Internal Auditor, there are matters of concern that could place the Council in a position where the risks it faces are unacceptable or the

independence of Internal Audit is under threat. The Chief Internal Auditor meets the Chief Executive, and the Head of Strategic Finance (s95 officer) at least four times a year to discuss the internal control environment, levels of residual risk and governance matters.

The Chief Internal Auditor has unrestricted access to the Chair of the Audit Committee, and the Committee Members, and discusses before each Audit Committee, the agenda with the Chair. Additionally, Internal Audit has unrestricted access to all Chief Officers and employees of the Council.

Internal Audit also reports to the Audit Committee. Internal Audit reports 4 times a year to the Audit Committee, whose membership consists of 5 Elected Members, an independent Chair and an independent Vice Chair. This is compliant with separate CIPFA guidance on Audit Committees.

The Audit Committee will:

- approve the Internal Audit Charter;
- approve the Risk Based Internal Audit Plan;
- approve the Internal Audit budget and resource plan;
- receive communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters; and
- make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

In addition, the Audit Committee reviews all Internal Audit reports including the Annual Assurance Statement.

7 INDEPENDENCE AND OBJECTIVITY

The Internal Audit activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's independence.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

At all times, management's responsibilities include:

- maintaining proper internal controls in all processes for which they have responsibility;
- the prevention, detection and resolution of fraud and irregularities;
- providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- sponsoring each audit at Head of Service level;
- considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so;
- implementing agreed management actions in accordance with the agreed timescales; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

Given the safeguards in place outlined above and the access Internal Audit has to senior management, Internal Audit is free to act independently and objectively. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

8 RESPONSIBILITY AND PURPOSE

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the council's governance, risk management, and internal control processes in relation to the council's defined goals and objectives.

Internal Audit's purpose is to support the Council in achieving its objectives by:

- supporting the Council in continuing to improve its governance arrangements;
- contributing to the Council's management of risk;
- supporting the Council in raising the standard of internal control;
- supporting the Head of Strategic Finance (s95 officer) and the Audit Committee in the discharge of their duties;
- contributing to the development and implementation of the Council's policies and procedures;
- supporting the Council with internal control, risk and governance advice in the development of new systems and improvement of existing systems;
- supporting the Council with internal control, risk and governance advice on projects;
- acting as an aid to ensure that the Council and its Members, managers and officers are operating within the law and relevant regulations;

- contributing towards the accuracy and reliability of financial statements and other published information;
- supporting of the Council in its management of human, financial and other resources in an efficient and effective manner;
- supporting the Council in meeting its social, environmental and community priorities;
- promoting and raising the standards of an anti-fraud and corruption culture; and
- contributing towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

The Council's Internal Audit adds value to the Council by providing objective and relevant assurance, and contributing to the effectiveness and efficiency of governance, risk management and control processes.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Strategic Management Team, including fraud risks, governance issues, and any other matters arising. Management retain responsibility for Risk Management. Internal Audit is therefore not responsible for developing, monitoring or updating the Council's Risk Registers.

9 SCOPE

The scope of the work carried out by Internal Audit is designed to evaluate and recommend improvements to the Council's governance, risk management, and control processes using a systematic and disciplined approach.

Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Council's governance arrangements and processes;
- the information technology governance of the Council in support of the Council's strategies and objectives;
- the systems and processes in place to ensure effective organisational performance management and accountability;
- the coordination of activities and communication among the Audit Committee, external and internal auditors and management;
- the identification and assessment of risk by management;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the risk appetite of the part of the Council under review and the residual risk;
- the communication of risk and control information in a timely manner across the Council, enabling staff, management and the Audit Committee to carry out their responsibilities;
- the potential for the occurrence of fraud and how the organisation manages fraud risk;

- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established by the Council or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the economic acquisition of resources;
- the effectiveness of arrangements for safeguarding the Council's assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all Council activities, systems, processes, controls, policies, and protocols;
- all Council departments, cost centres, other business units and establishments; and
- all services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

Where other assurance providers have undertaken relevant assurance work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards and the nature and quality of the work they have undertaken would make it appropriate to do so.

10 DUE PROFESSIONAL CARE

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. This means internal auditors will be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified. Due professional care does not imply infallibility.

Internal auditors will exercise due professional care by considering:

- the extent of work needed to achieve the engagement's objectives;
- relative complexity, materiality or significance of matters to which assurance procedures are applied;
- adequacy and effectiveness of governance, risk management and control processes;
- probability of significant errors, fraud, or non-compliance; and
- cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors consider the use of technology-based audit and other data analysis techniques and significant risks that might affect objectives.

Specifically for consulting engagements, internal auditors should consider the:

- needs and expectations of clients including the nature, timing and communication of engagement results;
- relative complexity and extent of work needed to achieve the engagement's objectives; and
- cost of the consulting engagement in relation to the potential benefits.

11 INTERNAL AUDIT PLAN AND RESPONSIBILITIES

At least annually, the Chief Internal Auditor will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria.

The Chief Internal Auditor will establish the risk-based plan to determine the priorities of the Internal Audit activity, consistent with the Council's goals. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:

- Argyll and Bute Council's risk registers and risk management framework, including risk appetite levels set by management for the different activities and parts of the Council;
- the balance of coverage required so External Audit can place reliance on Internal Audit's work;
- the experience gained from previous Internal Audit Reports;
- establishing whether previous audit recommendations have been implemented satisfactorily;
- the impact of national issues (e.g. economic factors, the introduction of new legislation);
- the impact of local issues (e.g. corporate or service action plans and issues raised by external assurance bodies);
- input from senior management and Members of the Audit Committee;
- the periodic review of core financial and operational systems;
- the available audit resource and skills;
- the need for specialist skills, where they are not available already;
- staff development and training;
- time needed for the management of the Internal Audit service e.g. audit planning, development of the annual opinion, attendance at meetings, the appraisal and follow-up process, the updating of relevant audit policies and procedures, compliance with PSIAS;
- contingency set aside for consultancy, reviews or investigations; and
- liaison with other assurance providers, to share information and audit plans, such as the External Auditor and other scrutiny bodies.

12 REPORTING, DOCUMENTING AND MONITORING

The risk-based plan and resource requirements, including significant interim changes, are reported to the Head of Strategic Finance (s95 officer) and the Audit Committee. The Audit Committee will approve, but does not direct the risk-based audit plan.

Internal auditors will develop and document a Terms of Reference for each engagement, including the engagement's objectives, scope, timing, resource allocations, management expectations and reporting format required. The Terms of Reference will be discussed and agreed with relevant managers and be approved at Head of Service level and by the Chief Internal Auditor or a Lead Auditor.

Audits are carried out using a risk based approach, and will consider the objectives of the activity being reviewed, the significant risks to the activity, the adequacy of the governance, risk management and internal control processes and the opportunities to make significant improvements to the activity's processes.

Internal auditors will conduct a preliminary assessment of the risks relevant to the activity under review and document these in the Terms of Reference and engagement objectives will reflect the results of this risk assessment. Adequate criteria are needed to evaluate an activity's governance, risk management and controls. Criteria should include value for money (e.g. the effective use of money, people or assets) and the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

The scope will be sufficient to satisfy the objectives of the engagement. The scope of the engagement will include consideration of relevant systems of internal control, records, personnel and physical properties, including those under the control of third parties. The Chief Internal auditor will determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Internal auditors will develop and document work programmes that achieve the engagement objectives. Work programmes will include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme will be approved by the Chief Internal Auditor or a Lead Auditor prior to its implementation and any adjustments approved promptly.

Internal auditors will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives. Also, internal auditors will document relevant information to support the conclusions and engagement results and base their conclusion on appropriate analyses and evaluation. Records for audit and consultancy engagements are compliant with the Council's retention policies. The Chief Internal Auditor will control access to engagement records. The Chief Internal Auditor will obtain the approval of senior management and Governance and Law prior to releasing such records to external parties.

All audit reports will be communicated to the Audit Committee. Draft reports will be agreed with relevant management for factual accuracy prior to submission to the

Audit Committee. Engagement results will specify the engagement’s objectives and scope as well as applicable conclusions, recommendations and action plans. The Internal Audit service will strive to ensure that communications are accurate, objective, clear, concise, constructive, complete and timely. Additionally, internal auditors are encouraged to acknowledge satisfactory performance in engagement communications. If a final communication contains a significant error or omission, the Chief Internal Auditor will communicate corrected information to all parties who received the original communication.

The following table describes the different assurance opinions that are provided by Internal Audit:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

Most Internal Audit reports result in internal audit recommendations detailed on the Action Plan. The Head of Service with responsibility for the service/operation which has been audited will be responsible for the Action Plan. If the audit assignment examined is a corporate matter (impacting on more than one service, or all services),

then a Head of Service will be designated by the Strategic Management Team to implement the Action Plan, across services.

At the conclusion of an audit assignment, the Chief Internal Auditor or Lead Auditor and Head of Service will agree recommendations and timescales for these, along with priority ratings (High, Medium or Low). These recommendations will then be added to the Council's Audit Follow-up Database and will be subject to quarterly performance reporting and Audit Committee scrutiny. In the unlikely event that appropriate actions to mitigate an identified risk cannot be agreed with management, this is recorded in the Action Plan section of the audit report and the residual risk will be explained and highlighted. If this risk is deemed to be high, then the risk will be reported to the Head of Strategic Finance (s95 officer), Strategic Management Team and Audit Committee and the Council's risk registers can be updated where appropriate.

The Chief Internal Auditor is responsible for reviewing and approving the final engagement communication before issue and deciding to whom and how it will be disseminated. When the Chief Internal Auditor delegates these duties, he or she retains overall responsibility.

The following table describes the three priority levels given to audit recommendations:

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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The Chief Internal Auditor accepts that the responsibility of Internal Audit does not end when the Audit Report is issued, and that there will be a follow-up process to monitor and ensure that actions have been implemented. This will be achieved by issuing follow up reports via Strategic Management Team meetings, to confirm that the recommendations have been adequately addressed.

13 AUDIT RESOURCES AND WORK PRIORITISATION

Work is directed according to the assessed level of risk, the judgement of the Chief Internal Auditor, with guidance from the Audit Committee. The annual risk based audit plan agreed by the Audit Committee will be the main determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed.

The plan will have within it the provision of resources to address unplanned work. This contingency will be directed towards unplanned work including consultancy engagements and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies and sickness.

The Chief Internal Auditor will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Chief Internal Auditor will hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. Each job post within the Internal Audit structure details the skills and competencies within the approved job description and person specification. Any development and training plans will be regularly reviewed, monitored and agreed with the Chief Internal Auditor. Auditors are also required to maintain a record of their continual professional development in line with their professional body.

14 PERIODIC ASSESSMENT

The Chief Internal Auditor shall be accountable to the Audit Committee and the Head of Strategic Finance (s95 officer) for:

- providing an opinion on the overall adequacy and effectiveness of Argyll and Bute Council's framework for, risk management, control and governance.
- periodically providing information on the results of the annual audit plan and Internal Audit's resources;
- reporting to the Audit Committee on the Internal Audit Activity's performance relative to its plan;
- reporting on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit Committee;
- periodically reporting on the status of audit recommendations; and
- co-ordinating with other significant assurance functions.

The opinion will incorporate a summary of work that supports the opinion, a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme.

Additionally, the opinion will include details on the reliance on other assurance providers, risk management framework used when forming the opinion and the overall opinion reached.

The Chief Internal Auditor is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Chief Internal Auditor will communicate to Strategic Management Team and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal assessments consist of all Internal Audit engagements being subjected to a thorough internal peer review of quality, to ensure that its work meets the standards expected from its staff.

These reviews include checks on:

- all work undertaken is in accordance with PSIAS;
- supervision is provided to all levels of staff ;
- work is allocated to staff with appropriate skills, competence and experience;
- work is monitored for progress, assessed for quality and to allow for coaching and training;
- the work is planned and undertaken in accordance with risks associated with areas under review; and
- the conclusions are fully supported by the detailed work undertaken and with sufficient and appropriate evidence held on file.

An external assessment will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Chief Internal Auditor will discuss options for the assessment with the Head of Strategic Finance (s95 officer) and the Chair of the Audit Committee

15 CONFLICTS OF INTEREST

Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal auditors will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the Council's own policies);
- not use information obtained during the course of duties for personal gain;
- disclose all material facts known to them which, if not disclosed, could distort their reports; and
- comply with the Bribery Act 2010.

Internal auditors will refrain from assessing specific operations for which they were previously responsible. Objectivity, for the purpose of audit work, is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

If any member of Internal Audit, considers that there is or is perceived to be a conflict of interest, this will be declared to the Chief Internal Auditor who will then consider the validity of the claim. If the Chief Internal Auditor's own independence is impaired, he or she will declare this in writing to the Chief Executive.

16 FRAUD

The responsibility for the prevention and detection of fraud and corruption rests with management.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service /Executive Director will immediately notify the Council's Monitoring Officer and the Chief Internal Auditor for consideration of appropriate action. Managers will only establish the basic facts of the suspicion and should not attempt to carry out any detailed investigation until agreed by the Council's Monitoring Officer, the responsibility can then be discharged to the Service with support from Internal Audit if required. Suspected fraudulent claims in relation to Housing and Council Tax Benefit are investigated by the Benefit Fraud Investigation Team. Further guidance can be found in the Council's Anti-fraud strategy and Public interest disclosure policy.

Further information on Internal Audit's role and responsibilities in relation to fraud, are detailed within the Council's Constitution– Anti-Fraud Strategy.

17 APPROVAL

The Charter was reported to and approved by the Audit Committee at its meeting on 17 June 2016 and shall be subject to regular review by the Head of Strategic Finance (s95 officer), the Chief Internal Auditor and the Audit Committee.

Version 2.0 June 2016

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Audit Committee Work Plan 2016 - 2017

March 2016: This is an outline plan to facilitate forward planning of reports to the Audit Committee.

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
Friday 17 June 2016					
	Review of Code of Corporate Governance	Head of Strategic Finance and Executive Director – Customer Services	Annual	8 June 2016	
	Internal Audit - Annual Report 2016-17	Chief Internal Auditor	Annual	8 June 2016	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	8 June 2016	
	Internal Audit Reports to Audit Committee 2016 - 2017	Chief Internal Auditor	Quarterly	8 June 2016	
	External & Internal Audit Report Follow up 2015 -2016	Chief Internal Auditor	Quarterly	8 June 2016	
	Audit Committee Annual Report 2015/16	Chair Audit Committee	Annual	8 June 2016	
	Unaudited Financial Accounts	Head of Strategic Finance	Annual	8 June 2016	
	Why Accounts Matter	Head of Strategic Finance	One off report	8 June 2016	
	External Audit Reports	External Auditors	Quarterly	8 June 2016	
	Risk Management and Audit	Chief Executive	Annual	8 June 2016	
	Internal Audit Charter	Chief Internal Auditor	One off report	8 June 2016	
Friday 23 September					

Audit Committee Work Plan 2016 - 2017

2016					
	Performance Management Reporting Update	Head of Improvement and HR	Annual	14 September 2016	
	Review of Community Planning Partnership Governance	Area Governance Manager & Community Planning Manager	Annual	14 September 2016	
	Treasury Management Annual Assurance Report	Head of Strategic Finance	Annual	14 September 2016	
	Audited Financial Accounts	Head of Strategic Finance	Annual	14 September 2016	
	External Audit Annual Report	External Auditors	Annual	14 September 2016	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	14 September 2016	
	Internal Audit Reports to Audit Committee 2016 - 2017	Chief Internal Auditor	Quarterly	14 September 2016	
	External & Internal Audit Follow up 2015 – 2016	Chief Internal Auditor	Quarterly	14 September 2016	
	Audit Committee Development Plan	Vice-Chair Audit Committee	Quarterly	14 September 2016	
	VAT Action Plan	Chief Internal Auditor	One off report	14 September 2016	
	National Fraud Initiative in Scotland	External Auditors	Biannual	8 June 2016	
Friday 2 December 2016					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	23 November 2016	
	Internal Audit Reports to Audit Committee 2016 - 2017	Chief Internal Auditor	Quarterly	23 November 2016	

Audit Committee Work Plan 2016 - 2017

	External & Internal Audit Report Follow – Up 2015 – 2016	Chief Internal Auditor	Quarterly	23 November 2016	
	Draft Annual Audit Plan 2017/18	Chief Internal Auditor	Annual	23 November 2016	
	Risk Management Overview	Head of Strategic Finance	Annual	23 November 2016	
	Risk Assurance Mapping	Grant Thornton Audit Partners	Annual	23 November 2016	
	Audit Committee Development Plan	Vice-Chair Audit Committee	Quarterly	23 November 2016	
	IT Risk Assessment	Chief Internal Auditor & Grant Thornton	Annual	23 November 2016	
Friday 24 March 2017					
	Financial Statements 2016 – 17	Head of Strategic Finance	Annual	15 March 2017	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	15 March 2017	
	Internal Audit Reports to Audit Committee 2016 - 17	Chief Internal Auditor	Quarterly	15 March 2017	
	External & Internal Audit Report Follow Up 2016 – 2017	Chief Internal Auditor	Quarterly	15 March 2017	
	Annual Audit Plan 2015/16	Chief Internal Auditor	Annual	15 March 2017	
	External Audit Plan 2017 – 18	External Auditors	Annual	15 March 2017	
	Audit Committee Development: Action Plan	Vice-Chair Audit Committee	Quarterly	15 March 2017	
Future Reports – dates to be determined					

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