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Argyll and Bute Council  
Audit Committee

23 September 2016

## Argyll and Bute Council Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2015/16 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 23 September 2016 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
3. In presenting this report to the audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

### Outstanding matters

5. We have still to check the final version of the financial statements before we will issue our audit opinion. Any issues that emerge from these final checks will be raised and discussed with the Head of Strategic Finance. We would expect these to be resolved satisfactorily but will highlight any further significant findings to the Audit Committee.

# APPENDIX A: Proposed Independent Auditor's Report

## Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Argyll and Bute council and its group for the year ended 31 March 2016 under part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, Statements of Comprehensive Income and Expenditure and Balance Sheets, the authority only Cash-Flow Statement, the Council Tax Income Account, the Non Domestic Rate Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Head of Strategic Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government: or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight  
Assistant Director, Audit Services  
Audit Scotland  
4th Floor, The Athenaeum Building  
8 Nelson Mandela Place  
GLASGOW  
G2 1BT

23 September 2016

Appendix B: ISA 580 - Letter of Representation  
Fiona Mitchell-Knight  
Assistant Director, Audit Services  
Audit Scotland  
4th Floor, The Athenaeum Building  
8 Nelson Mandela Building  
Glasgow  
G2 1BT

Dear Fiona

**Argyll and Bute Council  
Annual Accounts 2015/16**

1. This representation letter is provided in connection with your audit of the financial statements of Argyll and Bute Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Argyll and Bute Council, as at 31 March 2016 and its comprehensive net expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Strategic Management Team and the council, the following representations given to you in connection with your audit of Argyll and Bute Council for the year ended 31 March 2016.

**General**

3. I acknowledge my responsibility and that of Argyll and Bute Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Argyll and Bute Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all council and other meetings.
4. The information given in the Annual Report to the financial statements, including the Management Commentary and Remuneration Report, presents a balanced picture of Argyll and Bute Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

**Financial Reporting Framework**

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, and in accordance with the requirements of the Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Argyll and Bute Council and its group for the year ended 31 March 2016.

## **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

## **Going Concern**

10. The Senior Officers have assessed the ability of the council and its group to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

## **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local authority accounting in the United Kingdom 2015/16.

## **Remuneration Report**

12. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.
13. All exit packages agreed in 2015/16 and included in the accounts were notified to Strathclyde Pension Fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

## **Events Subsequent to the Date of the Statement of Financial Position**

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

## **Corporate Governance**

16. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
17. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom

2015/16. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2016, which require disclosure.

## **Fraud**

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

## **Assets**

19. The assets shown in the Balance Sheet at 31 March 2016 were owned by Argyll and Bute Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
20. Property, plant and equipment shown in the Balance Sheet at 31st March 2016 is a complete listing of all such assets.
21. At 31 March 2016 title deeds for properties owned or mortgaged to Argyll and Bute council were held by the council and all such deeds were in order.
22. The council's inventories have been valued at cost or, where appropriate, average cost. All inventories are included in the financial statements other than those considered to be obsolete.

## **Liabilities**

23. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2016.
24. The costs of all employee terminations that were committed to during 2015/16 have been charged in the comprehensive income and expenditure account in 2015/16 and were either paid during the year or are included within provisions or accruals at the year end.

## **Carrying Value of Assets and Liabilities**

25. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

## **Provisions**

26. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016 and of which Argyll and Bute Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2016.

## **Contingent Liabilities**

27. There are no significant contingent liabilities, other than those disclosed at note 31 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided for under the Code and IAS27.

## **Common Good Account and Trusts and Bequests**

28. In my opinion the common good assets, liabilities and revenue transactions within the financial statements are materially complete. All common good assets and liabilities and revenue transactions have been properly separated from the council's single entity accounts and are reflected within the common good accounts in accordance with LASAAC guidance issued December 2007. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the council have been properly separated from the council's single entity accounts and are reflected within the trusts and bequests accounts.

Yours sincerely

Kirsty Flanagan  
Head of Strategic Finance