

Argyll and Bute Council

Proposed 2015/16 Annual
audit report to Members
and the Controller of Audit

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about-us/audit-scotland).

The Accounts Commission has appointed **Fiona Mitchell-Knight** as the external auditor of **Argyll and Bute Council** for the period 2011/12 to 2015/16.

This report has been prepared for the use of **Argyll and Bute Council** and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Unqualified auditor's reports on the nine charitable trusts administered by the council.

Financial management and sustainability

- Financial management has been effective in 2015/16. The council reported an underspend against budget of £1.612 million. Total usable reserves have increased by £6.637 million to £57.115 million.
- Revised financial forecasts estimate required savings of between £16.9 million and £33.9 million over the three year period 2017/18 to 2019/20. Members have not yet agreed a budget strategy to balance the budget.
- The council has created an Asset Management and Investment Fund and is proposing to create a charitable leisure trust. But further action is required to deal with its financial challenges going forward.

Governance and transparency

- Governance arrangements are generally sound but some improvements are in progress relating to asset management.
- Key financial controls operated effectively during 2015/16.
- The council could operate in a more open and transparent way to strengthen relationships with its communities.
- Maintaining assets to deliver services in the future is a challenge due to budget reductions.
- The council has an effective internal audit function and sound anti-fraud arrangements.



Best Value

- There is still work to be done by the council to make the improvements agreed by members in response to the Accounts Commission findings in the December 2015 Best Value Audit report.
- The number of outcome indicators monitored, together with the range of corporate and service specific strategies and plans, cloud visibility and clarity around performance management.
- Consultation with the communities takes place but greater clarity is required on how the results are reflected in the council's decisions.
- A short life working group has been established which will consider how Area Committees work with the communities.
- Progress in implementing the agreed People Strategy requires to be monitored to ensure an effective performance management framework.



Outlook

- The financial challenges facing the council are significant with a potential 3 year budget gap of £33.9 million over the period 2017/18 to 2019/20.
- The council has set up a Transformation Working Group to challenge the way it delivers services to respond to these pressures. Reliance on small-scale savings and workforce reductions will not be sufficient.
- The council's updated best value improvement plan, due to be discussed by members at the Council meeting on 29 September 2016, will be critical to paving the way for the future.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Argyll and Bute Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Argyll and Bute Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Argyll and Bute Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Argyll and Bute Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Argyll and Bute Council will be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> We have completed our audit of the council and its group and issued an unqualified independent auditor's report.
<p>Going concern</p>	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council's, its group and associated charitable trusts' ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
<p>Charitable trusts</p>	<ul style="list-style-type: none"> We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by Argyll and Bute Council and issued an unqualified independent auditor's report for each of the relevant trusts.
<p>Group accounts</p>	<ul style="list-style-type: none"> Argyll and Bute Council Argyll and Bute Council has accounted for the financial results of three associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £7.783 million.
<p>Whole of government accounts</p>	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This is currently being reviewed and the certified return will be submitted to the Scottish Government.

Submission of financial statements for audit

We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

10. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Argyll and Bute IJB was established on 27 June but did not become operational until 1 April 2016. Consequently, as the amounts concerned in 2015/16 are not material, they have not been consolidated into the group accounts.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 17 March 2016.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved 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.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial

statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Argyll and Bute Council we set our planning materiality for 2015/16 at £3.110 million (1% of gross expenditure). Performance materiality was calculated at £1.866 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels. Materiality was revised to £3.354 million (1% of gross expenditure) and performance materiality revised to £2.012 million.

Evaluation of misstatements

19. All misstatements identified during the audit, which exceeded our clearly trivial threshold of £30,000, have either been amended in the financial statements or recorded as an unadjusted error.
20. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements in most instances. The effect of the monetary adjustments is to increase net assets on the balance sheet by £0.228 million.

21. Unadjusted errors, if corrected, in the financial statements would have the cumulative effect of reducing the council's net assets by £0.037 million. The net impact on the council's funding position would also be a reduction of £0.037 million

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
23. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

International Accounting Standard (IAS) 19 pension liability

The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure. There has been a £50.297 million reduction in the net pension liability from £144.738 million at 31 March 2015 to £94.441 million at 31 March 2016. This is largely due to an increase in the net discount rate over the period. An increase in the net discount rate decreases the assessed value of liabilities as a lower value is placed on benefits paid in the future. The next triennial valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

Resolution: Assurance is obtained from the triennial valuations of the pension fund carried out by Hymans Robertson LLP, which provides assurance that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.

Equal Pay

The ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. The council settled a number of equal pay claims during 2015-16. However, there are a small number remaining where the outcome is 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. Based on advice from the legal section, the year end provision for equal pay claims is £0.077 million.

Resolution: The equal pay provision will be reviewed on an annual basis.

Significant findings from the audit in accordance with ISA260

Heritage Assets

Heritage Assets include two art collections valued in total at £1.135 million. The council's museum and libraries art collection (£0.433 million) was revalued in April 2015. The Argyll Collection (£0.702 million) was revalued in May 2016. The council also owns museum exhibits (insured for £0.520 million) which are not included within Heritage Assets as no detailed inventory exists. Last year the council agreed to consider cataloguing the assets at the Campbeltown museum and the Argyll collection during 2015/16. However, this exercise has not yet been completed.

Resolution: The service is progressing with production of the inventory and has commissioned an expert from the Kilmartin House Museum to carry out this work.

Annual Governance Statement

Our audit work identified a number of prominent governance issues that were either not included in the 2015/16 statement or required further detail, including arrangements for valuation of Highways Network Asset and health and social care integration progress.

Resolution: A revised Annual Governance Statement has now been prepared incorporating all suggested amendments.

Future accounting and auditing developments

Health and social care integration

24. The council will need to include the IJB activities in its 2016/17 group accounts. Assurance arrangements relating to the annual governance statement need to be established.

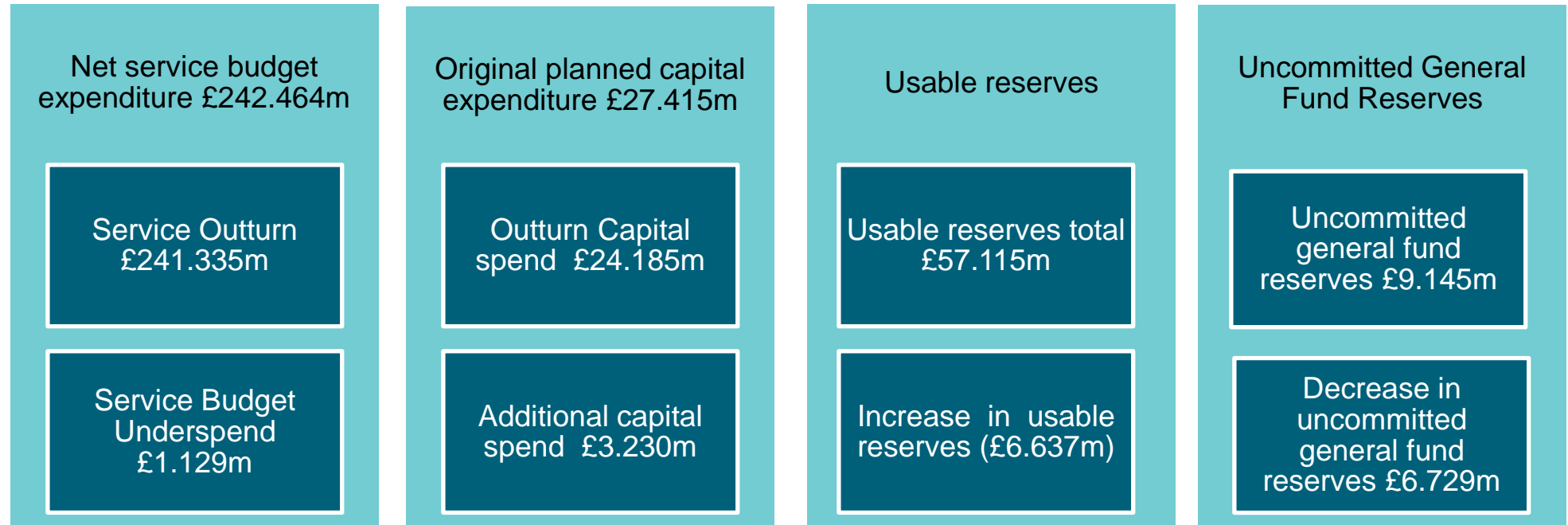
Highways network assets

25. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. This will have a significant impact on the value of local authority balance sheets.
26. The council's Development and Infrastructure Asset Management Plan (approved February 2016) estimates the value of highways at £2,191 million. This is approximately four times greater than the total of all the council's current property, plant and equipment assets.
27. The council is using the Society of Chief Officers of Transportation in Scotland (SCOTS) model to record and value assets. Staff attend all relevant working groups and workshops and there is participation in family groups. There is close working between Strategic Finance and Roads Department staff. Compilation for major assets e.g. carriageways and structures is largely complete and the Roads department is working to capture the remaining, and more peripheral, data e.g. footways, street lighting and street furniture (signs, bollards, barriers etc).

Code of Audit Practice

28. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
29. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability



Financial management

30. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

Financial outcomes

31. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

32. The outturn of the general services budget was broadly in line with the budget. Overall the council reported an underspend against budget of £1.612 million. There was a net overspend of £0.074 million in relation to departmental expenditure and a net underspend of £1.203 million in relation to other central/non-departmental costs. The remainder of the underspend of £0.483 million relates to funding and the over-recovery of Council Tax income.

Financial management arrangements

33. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

34. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in

Local Government" and concluded that the council complies with the statement's five principles.

35. We reviewed the council's financial regulations, which are revised periodically, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
36. Financial monitoring reports (both revenue and capital) are submitted to the Policy and Resources Committee (PRC) bi-monthly. They are included within a comprehensive financial reports monitoring pack. The revenue budget monitoring report provides corporate and departmental information with comparisons on a forecast outturn and year to date basis.
37. Financial reporting in respect of Integration Services has been introduced. Information is submitted to the IJB by the IJB's Chief Financial Officer who will also keep the Council up to date on the financial position. The Scheme of Integration requires (paragraph 8.2.17) that "Any potential deviation from the planned outturn should be reported to Argyll and Bute Integration Joint Board, the Council and NHS Highland at the earliest opportunity".

Conclusion on financial management

38. The council's financial management arrangements for 2015/16 have been effective. The council managed expenditure within its annual budget in 2015/16 and as at 30 June 2016, the council has forecast that the 2016/17 year-end outturn will also be in line with budget.

Financial sustainability

39. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.
40. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability. Our conclusions on the council's asset management are reported at paras 80 to 85 and on workforce planning at paras 176 to 180.
41. In the December 2015 Best Value Audit report, the Accounts Commission said that the council's approach to the scale of financial challenge it faces is not sustainable. We looked for evidence of the council making changes to demonstrate a more robust response to its longer term financial challenges

Reserves

42. The overall level of usable reserves held by the council at 31 March 2016 increased by £6.637 million compared to the previous year and totalled £57.115 million (refer Exhibit 1). The General Fund balance includes £9.145 million of unallocated general fund reserves, a decrease compared to the previous year of £6.729 million. Planned commitments from the general fund balance

amount to £43.272 million. The most significant elements of this balance relate to the Strategic Housing Fund (£6.581million), Investment in Affordable Housing (£5.000 million), Helensburgh Waterfront (£5.579 million), Argyll Lomond and the Islands Regeneration Initiative (£4.500 million) and an allowance for future severance costs (£3.500 million).

Exhibit 1: Usable reserves

Description	31 March 2015	31 March 2016
	£ million	£ million
General fund	46.067	52.417
Repair and renewal fund	0.669	0.671
Capital funds	3.742	4.027
Total usable reserves	50.478	57.115

Source: Argyll and Bute Council 2015/16 financial statements

43. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
44. 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 £4.402 million, which is available to be directed towards the delivery of the Single Outcome Agreement (SOA), as previously agreed by the PRC in August 2014.

Capital programme 2015/16

45. The council approved its capital programme for 2015/16 in February 2015. Actual spend on the capital programme amounted to £24.185 million compared to a capital budget of £27.415 million giving rise to an underspend for the year of £3.230 million.
46. 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 council's view is that the capacity of the private sector to deliver the scale and scope of these projects is a contributory factor to the slippage.
47. There is also a forecast underspend in 2016/17 of £4.555 million, again as a result of slippage between years which is offset by a planned overspend of £1.5 million in relation to Roads Reconstruction.
48. In financial terms, slippage in the capital programme can generate one-off revenue savings as a result of lower borrowing. It does however carry a longer term risk of increased revenue cost should the cost of borrowing increase. There is also a risk that delivery of services is impacted.
49. The council has well established financial reporting in relation to the capital programme and regular capital monitoring packs are

reported to the PRC as part of the Financial Report Monitoring Pack. Our review of asset management (see paragraphs 80 to 85) recommended that member scrutiny would be enhanced by including details of project risks and overall capital programme risks, together with cumulative spending for significant capital projects, and start/finish dates.

Financial planning for the future

50. In our 2014/15 Annual Report we reported that the budget gap was estimated to be between £21.7 million and £26.0 million over the period 2016/17 to 2020/21, requiring savings of between £7.9 million and £8.8 million in 2016/17 and between £7.9 million and £9.6 million in 2017/18.
51. In December 2014, the Council agreed a strategy, entitled 'Planning our Future' for addressing both the financial challenges and the challenges within the Single Outcome Agreement. Service Choices, was one element of the strategy which outlines the plans for the estimated funding reductions by aligning the available budget to members priorities.
52. In April 2015, the Council established a cross-party project board to lead the Service Choices process. In October 2015, based on the project board's work, the Council agreed to ask people to give their views on over 140 savings options, on the approach and objectives of making savings, and on ideas for transforming the work of the Council.

53. At the Council's budget meeting on 11 February 2016, Members were asked to make a decision on all Service Choices policy options that were subject to public consultation irrespective of whether the saving was due to be delivered in 2016/17, 2017/18 or beyond. For 2016/17, savings options of £5.186 million were agreed some of which were transformational in nature, together with further operational and management savings of £2.718 million. The largest (by value) options agreed, include:

- creation of a Charitable Trust to operate all council owned leisure and library services including community halls, saving £0.7m annually from 2017/18
- move to 3-weekly collection for general waste saving £0.548m annually from 2017/18
- removal of all secondary school librarian posts, saving £0.319m annually from 2017/18
- removal of school crossing patrollers, saving £0.2m annually from 2017/18
- combine Improvement and Organisational Development, and Human Resources teams to create a single service, saving £0.911m annually from 2017/18
- reduce Area Committee/governance functions saving £0.301m annually from 2017/18.

54. In addition the 2016/17 budget includes £2 million of earmarked reserves to be set aside for an Asset Management and Investment Fund (covering 2016/17 and 2017/18). The Fund will be used to seek investment opportunities, based on business cases, which will

generate income that can be used to support frontline services. Officers are currently scoping out the work required for the Fund but it may take 1-2 years before any investment would deliver a return.

55. The 2016/17 approved budget identified planned savings of £10.055 million, with a planned increase in reserves after meeting service costs of £3,000.
56. An updated budgetary outlook report was presented to the PRC in August 2016. The budgetary outlook looking forward was presented as two scenarios; best and worst case. The report estimates that the funding gap over the three year period 2017/18 to 2019/20 is between £16.9 million and £33.9 million with a gap of between £3.4 million and £10.5 million in 2017/18. Whilst members have not yet agreed a budget strategy to balance the budget over this longer term, the Council have a good track record on delivering savings.

Recommendation 1

57. The budgetary outlook report also records that of the 125 service choices savings options agreed by the Council, 35 have already been delivered, 59 are on track to be delivered, 14 have still to be implemented related to their planned implementation date, 14 have still to be developed and 3 are delayed. The three options delayed are creation of a charitable trust, removal of school crossing patrollers, and the move to 3-weekly general waste collection. The reason for delay in creation of the charitable trust is recorded as the initial timeframe was not feasible, resulting in a delay of around 6 months.

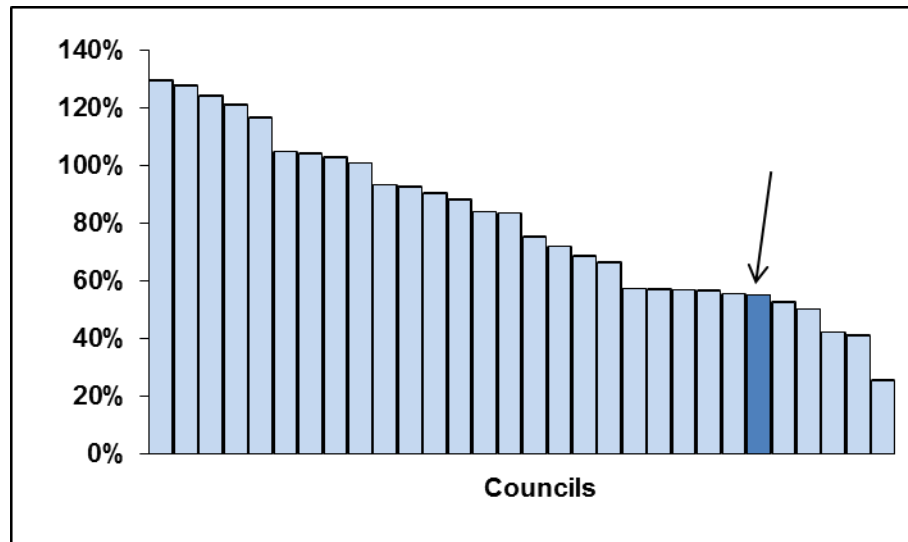
58. A Transformation Group has been established to oversee the implementation of the proposals received via comments on Savings Options and also consider the innovation suggestions that were received as part of the consultation exercise. In addition the Group will be exploring shared services and other alternative service delivery models. Officers have engaged in a number of shared services discussions but they feel that there are implications for Argyll and Bute in terms of fragile community economies.
59. The Head of Strategic Finance has confirmed that it is too early at this stage to quantify the levels of savings achievable without detailed business plans being developed and that whilst there have been good suggestions for innovation, some are not likely to deliver big savings. Progress is to be reported throughout the year and the budgetary outlook updated once any potential savings become clearer.
- future budget proposals by Members should include a clear breakdown of how a balanced budget is made up
 - 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.
61. Our report was discussed at the June 2016 Audit committee. The Committee agreed the recommendations contained within the report having received a clear management response that the three elements will be acted on with regard given to timescales and deadlines.

Treasury Management

Budget setting process for 2016/17

60. The budget setting process for 2016-17 was particularly challenging for councils due to the late settlement and issuing of guidance. The settlement was also worse than most authorities had anticipated. We reviewed aspects of the council's 2016/17 budget setting process and made some recommendations which are in line with our expectations for all councils:
- 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
62. At 31 March 2016 external borrowing stood at £158.1 million, a decrease of £15.3 million on the 2015 borrowing level of £173.4 million. This is in line with the council's Treasury Management Strategy for 2015/16, which is to minimise the cost of borrowing and keep to a minimum the council's cash balances. Interest payable and similar charges fell by £0.8 million in 2015/16 to £17.3 million. Exhibit 2 shows long term borrowing as at 31 March 2016 for the council as a proportion of the actual outturn for the year for all mainland councils in Scotland. Argyll and Bute Council's borrowing levels remain on the lower side of the median compared with other Scottish councils.

Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

Pension liability

63. The net assets on the council's balance sheet have increased by £42.362 million, from £160.957 million in 2014/15 to £203.319 million in 2015/16. The principal reason for this increase is the £50.297 million decrease in the pension liability from £144.738 million to £94.441 million. This is also reflected in the balance sheet for the group.

- 64. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The decrease is mainly due to an increase in the net discount rate. An increase in the net discount rate decreases the assessed value of liabilities as a lower value is placed on benefits paid in the future.
- 65. At the last triennial valuation in 2014, the Strathclyde Pension Fund was 94.3% funded and had assets of £13.949 billion. The next valuation will take place in 2017 with new contribution rates in place from 1 April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

Conclusion on financial sustainability

- 66. We have concluded that the council has an adequate level of reserves at the year end. However, the council, in common with many other councils, faces significant financial challenges over the coming years. Further work is required to address these challenges.
- 67. With the exception of creating an Asset Management and Investment Fund and proposals to create a charitable leisure trust (both of which are now unlikely to have significant impact before 2018/19), transformational savings undertaken or proposed generally relate to internal management actions. There is limited evidence to date of the council taking a new approach to dealing with its financial challenges to provide more sustainable services going forward. Medium and long term financial plans should be

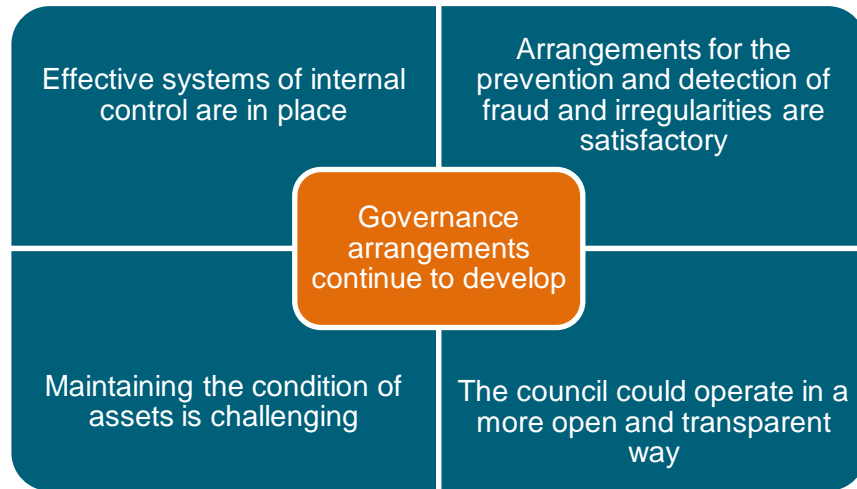
developed as a priority despite the uncertainty over future funding and income and this is an area of work that we are pleased to hear has been included within the Chief Executive's priorities for 2016/17.

Recommendation 2

Outlook

68. There is no doubt that all councils face tough decisions in order to balance the budget going forward. Uncertain single year financial settlements, ring fenced conditions and the relatively late confirmation of awards add to the challenges. Decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances. Further cost pressures such as pay progression and the adoption of the living wage together with the scale of the financial challenge means the council is likely to make further workforce changes. However, without significant service reform it is unlikely this will deliver the savings needed.

Governance and transparency



- 69. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. A new Chief Executive has been in post since May 2016. He has overall responsibility for the council's governance.
- 70. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.

- 71. The effectiveness of governance arrangements and a need for more transparency were key features of the Best Value Audit 2015. These are discussed in this section of this report.

Local code of corporate governance

- 72. The Council has adopted a local code of corporate governance based on six core principles. It is reviewed and updated annually by the council's Governance Group, chaired by the Executive Director of Customer Services as Monitoring Officer. A Corporate Governance Action Plan is also agreed for the year ahead which identifies work to be carried out to improve governance arrangements.

Transparency

- 73. Council meetings are held in public and committee reports are generally available as public documents. Performance reports are available on the Council's website. Financial reporting at the council is seen to be open and sufficiently detailed. Annual financial statements, alongside regular financial monitoring reports, are available as public documents, and are open to scrutiny from members.
- 74. The 2015 Best Value Audit report highlighted that the council considers a relatively high proportion of its business in private and

that by operating more openly it will help build greater trust with its communities.

75. The Head of Governance and Law presented a report to the Council in September 2015 which reviewed the submission of confidential reports at Council and its committees. Overall, 13.8% of reports put to the Council or Committees over the Committee Cycle from August 2014 to June 2015 were considered with the public excluded. However the percentage is much higher for Area Committees at 22.6%.
76. The Head of Governance and Law recorded that there was a reasoned justification for each instance of the use of exempt paragraphs and that the majority of cases were to support tendering processes, to protect financial affairs of third parties or in respect of the contemplation of planning enforcement action. He considers that in relation to the business being considered by Area Committees, the CHORD projects are still being progressed and accordingly, there is higher instance of exempt papers being considered.
77. We accept that some issues need to be discussed by the council in private but it remains our view that the council would strengthen its relationships with its communities and taxpayers by reporting more information about the budget setting process (see paras 61 to 62), and wider issues in public. Officers have confirmed that the SMT now routinely monitor private items and a further report is due to be presented to the Council in September 2016.

Internal control

78. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
79. We reported our findings to the Audit Committee in June 2016. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation and an action plan has been agreed with management to address these.

Asset Management

80. In April 2015, we invited the council to complete a Best Value toolkit to assess its own asset management processes. We reviewed the information provided by the council regarding its asset management processes. We also discussed the processes with officers and areas where there could be further improvements, as detailed in our 2014/15 Annual Audit Report.
81. Correspondence received by Audit Scotland in relation to asset management at the council was considered as part of our work. In January 2016, the Accounts Commission report '*Major Capital investment in councils: follow up*' was issued and the report's recommendations were considered. We also reviewed the action

plan the council prepared in response to the original 'Major Capital Investment in councils' report published in 2013.

82. CIPFA recently completed a 'Review of Estates Services within Argyll and Bute Council'. This report was finalised in early 2016 and is now being considered by the council's management team. In our 2014/15 Annual Audit Report, we said that we would consider the council's response to the CIPFA review and report on further improvements for the council's asset management processes.
83. The council has assessed that current practices in relation to its own asset management processes are generally effective. Whilst we concur that the council's asset management arrangements are generally sound and improving, our review has identified a number of areas where further improvement can be made. These include:
- the council has improved its focus on the future asset needs of the council. This would be enhanced through development of a long term capital investment strategy
 - the council should continue to improve its openness and communication in relation to surplus assets and disposals of properties
 - member scrutiny would be enhanced through providing more detailed information on capital receipts, cumulative spending on significant capital projects and project risks (this has been agreed by the PRS Committee). Post completion reviews would also be enhanced by comparing realised benefits to expected benefits detailed in business cases.

84. Our review also acknowledges that against a backdrop of reduced financial settlements and increased pressures on service delivery, there will be reduced budgets for capital spending. Indeed, funding may be insufficient for maintenance and improvements to protect the condition and sustainability of assets. Areas where this is already having a significant impact are the council's roads and its schools estate. This is confirmed by:
- the annual results from the Scottish Road Condition Survey for 2015 rank Argyll and Bute's Road Condition Indicator (RCI) as the worst in Scotland although the council recorded the highest improvement within the 'rural' family of councils
 - the Community Services Asset Management Plan 2016/17-2017/18 records that as a result of budget reductions; "The condition of assets is beginning to reflect the inspection gradings received by both Education Scotland and the Care Inspectorate, this not only is demoralising for staff, pupils and service users but also has a reputational risk for the Council".
85. Going forward the council will continue to face challenges making the necessary improvements to asset conditions and sustainability due to budget reductions and increased demand pressures.

Sale of Castle Toward

86. Conditional missives were agreed with the intending purchasers of Castle Toward in October 2015 as various title and other issues had not been resolved. The outstanding matters, in general terms, related to the extent of the Council's title, access rights, possession,

and the guarantees to be provided by the purchasers in relation to payment of the balance purchase price.

87. The total sum offered for the property (£1.510 million) includes £0.310 million payable only after receipt of all necessary and detailed consents for the implementation of the proposed purchasers' master plan.
88. The Executive Director Customer Services has undertaken to provide an update to the Area Committee or Council on sale receipts where there has been a request for this.

Employability Service

89. The Employability Service team currently delivers on three major Welfare to Work contracts on behalf of two Prime Contractors. These are the Work Programme on behalf of Working Links, Mandatory Work Activity and Community Work Placement on behalf of Learndirect. A special meeting of the Performance Review and Scrutiny (PRS) Committee on 18 March 2016 agreed that a formal scrutiny review of the Employability Service should be undertaken to examine the financial management of the service including governance and reporting arrangements. The report arising from the review was discussed at the May 2016 PRS Committee meeting. It identified a number of material issues, including:
 - Financial management arrangements were deemed weak with minimal basic reporting controls in place.
 - Insufficient profile or importance was given to consistent year on year six figure deficits. Governance and reporting

arrangements were poor with limited reference to issues arising. Any available commentary in relation to any challenges facing the service did not make clear any financial trends and their implications.

- The programme was to be 'cost-neutral' to the Council. However from the outset of the programme in 2011/12 through to 2014/15 expenditure consistently exceeded income. The total deficit for this period was £0.715m.
 - In order to fulfil the commitments of the contract until the end of 2017/18, the PRC agreed at its meeting in October 2015 to approve a request for an additional £0.456m (inclusive of redundancy payments) to be covered by Argyll and Bute's general fund as a one-off obligation.
90. Recommendations arising from the PRS review include that the Council should request officers to review financial monitoring protocols in place for dealing with externally funded initiatives to ensure that services and Strategic Finance have a coordinated and consistent approach. The recommendations were subsequently agreed by the Council at its meeting in June 2016.

CHORD project

91. As part of the 2015/16 audit, we carried out some follow-up work to monitor progress with the CHORD projects. Our enquiries have established that:

- Planning permission for the North Pier Maritime Visitor Facility in Oban was granted in July 2016 and a Full Business Case is now being written to present for determination in October 2016.
 - Oban Public Realm works are approaching completion and the current projected outturn is within the available budget.
 - The Final Account for the Helensburgh CHORD public realm improvement works has been agreed, resulting in a projected balance of funds remaining of £0.653 million.
 - The Helensburgh project has received positive feedback from local residents, businesses and from visitors to Helensburgh. Officers have said that the project has also won three prestigious awards in 2016. A Post Project Review will be undertaken to measure the economic, social and environmental benefits that have been achieved from the project.
 - The Final Account for the Campbeltown CHORD Transit Berthing Facility has been agreed resulting in a balance of £0.183 million. The Campbeltown projects have also received positive feedback from businesses and local residents.
92. To date, both the Campbeltown and Helensburgh CHORD projects have been completed. At its meeting on 18 August 2016, the PRC agreed to delegate the allocation of any CHORD surplus funds to the Area Committees to be used in accordance with original CHORD objectives.
93. We would concur with the results of the March 2015 Internal Audit review of the whole CHORD project which concluded that better governance arrangements are in place since the area committees

took over governance responsibilities and that improvements have been made in the standard and consistency of reports presented to the area committees

Argyll and Bute Alcohol and Drug Partnership

94. Argyll and Bute Council undertook a commissioning process for community based addiction recovery services in 2014 on behalf of the Argyll and Bute Alcohol and Drug Partnership (ADP). Due to the profile of this commissioning process in the local community and receipt of correspondence from members of the public and local MSPs, the audit team carried out a review of this process.
95. The findings from our review were reported to the council/ADP in May 2015 and were presented to the Community Planning Partnership Management Committee on 17 June 2015. Our report was also considered by the council's Audit Committee on 19 June 2015 and the PRS Committee on 27 August 2015.
96. Two of the recommendations arising from our review relate specifically to procurement by the council:
- Lead times of contracts should be assessed to ensure that there is sufficient time for handovers to be completed and contract requirements to be fulfilled.
 - The procurement manual and evaluation of tender documents should be updated to include a clause which states that where tender bids are close after being evaluated by the tender panel, further discussions will take place to differentiate the bids. This

should be included for clarifying the position for all involved in the tender process.

97. We have confirmed that both of these actions are complete.

Scottish submarine museum

98. In our 2013/14 and 2014/15 Annual Audit Reports we have made reference to funding provided by the council to support the opening of a Scottish Submarine Museum in Helensburgh.

99. In February 2014, the council made provision for £140,000 funding to the Scottish Submarine Trust to support the opening of the Museum. Following concerns raised by members, the Council agreed that the funding would be released in three tranches. To date, two funding instalments totalling £100,000 have been paid.

100. The funding for the museum was approved to facilitate early release of the funds so that the museum could be opened to coincide with the Commonwealth Games in Glasgow in 2014. The museum is now expected to open in March 2017.

Follow up of Gourock to Kilcreggan ferry service

101. In our 2013/14 Report, we recommended that to improve the processes for collecting council berthing fees for the Gourock to Kilcreggan ferry service, a signed agreement with Clydelink should be agreed. This would enable Strathclyde Partnership for Transport (SPT) to pay monies due directly to the council.

102. However, setting up the agreement has proved more difficult than expected and the council has now advised that SPT are unwilling to enter into such an agreement.

103. Our follow-up enquiries have established that most invoices issued to Clydelink for berthing dues continue to be subject to follow up action through the corporate sundry debtor process. An alternative course of action should be considered by the Council.

Recommendation 3

Internal audit

104. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

105. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

106. We placed formal reliance on aspects of the work of internal audit including financial ledger, trade receivables, trade payables, payroll and treasury management. In terms of our wider code responsibilities we took assurances from other work including procurement, performance indicators, performance management

arrangements, risk management arrangements and National Fraud Initiative.

107. We can confirm that the 2015/16 Internal Audit Plan was completed subject to the following 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.

108. None of these areas impacted upon the level of reliance we planned to take from the work of internal audit.

ICT audit

109. ICT is a key area of control because it underpins all the systems used by the council. As part of our audit planning process we carried out a high level review of the council's ICT arrangements. This included the council's technology strategy, data security and protection and business continuity management.

110. Argyll and Bute Council successfully achieved re-accreditation to allow access to the Public Service Network (PSN) on 12 February 2016. To achieve this, a validated information assurance assessment was carried out against a series of stated conditions to gauge compliance. The council is formally certified as compliant until February 2017. Obligations in participating in the PSN dictate that organisations undertake annual security health checks and

maintain appropriate security policies including acceptable use and lockdown policies. The Code of Connection requirements for accessing the PSN are stringent.

111. A three year ICT Strategy was approved by the council in September 2013. An updated strategy is being prepared for approval during 2016.

Arrangements for the prevention and detection of fraud

112. We assessed the council's arrangements for the prevention and detection of fraud during the planning stage of our audit. This involved reviewing council documents and discussing existing arrangements with officers. We are not aware of any specific issues that we need to record in this report.

National Fraud Initiative in Scotland

113. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

114. The Revenue and Benefits service have undertaken a review of Council Tax discounts which included the NFI matches. In total 317 cases were selected to be reviewed resulting in the removal of 87 discounts with an approximate value of £30K. In addition there are currently 15 cases where further work is being undertaken in respect of Single Person discount fraud which is estimated to have a Council Tax receipt value of approximately £11K.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

115. The arrangements for the prevention and detection of corruption in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Integration of health and social care

116. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Scottish Government sees health and social care integration as a key element of its 2020 Vision which allows everyone to live longer, healthier lives at home or in a homely setting.

117. The Argyll and Bute Integration Joint Board was established on 27 June 2015 and came into legal effect on 18 August 2015 when it first met. The IJB assumed responsibility for all delegated functions

on 1 April 2016. It is responsible for a budget of around £256 million.

118. The Partnership has responsibility for all health and social care functions relating to adults and children and will oversee the strategic planning and budgeting of these, together with corresponding service delivery for Argyll and Bute's residents.
119. The IJB comprises eight voting members appointed from elected members of the council, and NHS Board members. In addition there are a number of other non-voting appointees, representing other sectors and stakeholder groups.
120. During the period between the establishment of the Argyll and Bute IJB and its 'go live' date of 1 April 2016, the council worked with the health board to develop an integration scheme. The scheme set out the key deliverables that would allow the IJB to meet its statutory obligations by 1 April 2016.
121. A three year Strategic plan for the period 2016/17 – 2018/19 was approved by the IJB on 23 March 2016, following a three month period of formal consultation. It contains a three year strategic planning framework which sets out priorities for the new Partnership and how it will use its resources to integrate and deliver services in pursuit of National and Local Outcomes.
122. A number of work streams, with representatives from the council and the health board, were established to support integration. The work streams included those dealing with planning, governance, finance, workforce, performance management, data sharing and risk

management. With this support the IJB was able to develop its governance arrangements in the period running up to 1 April 2016. These arrangements are subject to refinement as the IJB evolves.

123. We concluded that the council, working with the health board, made good progress in its preparations for integration. However, significant challenges lie ahead for health and social care integration, not least delivering on the Scottish Government's 2020 Vision.

Local scrutiny plan

124. The 2016/17 Local Scrutiny Plan, prepared by the Local Area Network (LAN) of scrutiny partners, was submitted to the council in March 2016. This shows risk-based and nationally driven scrutiny activity during 2016/17. The LAN agreed that a specific scrutiny of the education functions of the council will be undertaken by Education Scotland. This will take place soon.

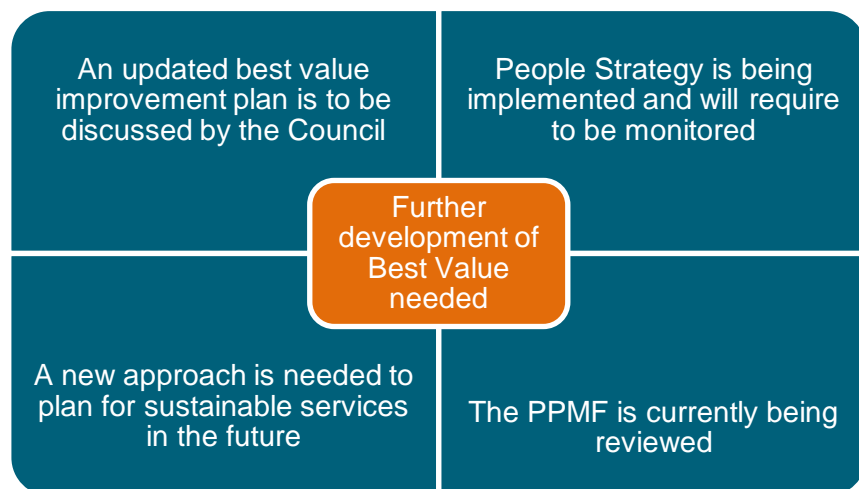
Outlook

125. Councils will continue to operate in a changing environment within continuing financial constraints. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

126. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance and funding external bodies and following the public pound. The council is in the process of creating a charitable trust to operate all council owned leisure and library services. It will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money.

127. Community planning and health and social care integration will also require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



128. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

129. The most recent Controller of Audit Best Value Report was considered by the Accounts Commission in December 2015.
130. The commission acknowledged and welcomed the progress by the council since 2013 in relation to improved governance, decision

making and scrutiny arrangements and the improving relationships between members and officials. The report commented on the importance of the council continuing to make progress with its current improvement plans and regularly assessing the impact of the improvements it makes. A number of areas highlighted for further improvement were detailed and it was reported that progress would be monitored through the annual audit process. This report details our conclusions on the areas for improvement:

- 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 (see paras 73 to 77)
- continuing to seek a resolution to long-standing and deep-rooted **relationship difficulties** between some members and between the council's leadership and the Argyll and Bute constituency MSP (see paras 134 to 137)
- 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 (see paras 66 to 67)
- continue to demonstrate 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 (see paras 138 to 142)

- 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 (see paras 143 to 146)
 - exploring all options for providing **training and development** for all members in a way that is most accessible and has greatest impact (see paras 147 to 152).
- 131.** At its meeting on 21 January 2016, the Council;
- welcomed the findings in the Best Value report, 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
 - welcomed the recommendations to consolidate progress and build on this to ensure a sustainable future particularly at a time of significant financial challenge
 - agreed to accept the recommendations and the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings.
- 132.** Following receipt of the Commission's findings and follow-up report, a member's workshop was held on 11 January 2016. Outputs from this meeting were to inform the development of an improvement plan

to reflect actions outstanding from the council's previous best value improvement plan and actions based on the December 2015 Best Value report. This updated improvement plan is due to be discussed by members at the Council meeting on 29 September 2016. Members and officers will need to monitor the effectiveness of these actions.

Recommendation 4

- 133.** The following paragraphs provide an update on progress against the areas for improvement identified in the follow-up report not reported elsewhere in this report.

Relationship difficulties

- 134.** In its findings, the Commission noted 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.
- 135.** The report highlights that while behaviours have improved significantly in the council since 2013, there are still some problems evident and achieving real and lasting improvement in culture, behaviour and understanding will only occur over time.
- 136.** The Improvement Service is currently undertaking work with members which includes their role in developing the culture of the organization. However we are aware from recent correspondence that differences of opinion continue between some councillors and parliamentarians about how the Council should conduct its business.

We are also aware that The Commissioner for Ethical Standards in Public Life is currently investigating an alleged breach of the Councillors' Code of Conduct against one elected member.

137. We have concluded that the council should continue its efforts to improve relations. The best value improvement plan to be discussed at the Council meeting in September contains actions relating to Standards.

Consultation

138. As part of the 'Planning Our Future' consultation in October 2015 around 2,500 people responded to the consultation as a whole, almost twice as many as replied to previous budget consultations. Over 3,000 more gave views on individual areas of work via email, letter or petitions.
139. Key findings from the survey were reported to the Council in February 2016 as part of the budget package. These include:
- transforming how the council works was the overall preference as a general approach to making savings, rather than growing council income, reducing or stopping services
 - no single savings option was entirely agreed or disagreed with. All options received a level of support or objection
 - many people put forward ideas for how the Council can transform its work
 - a number of common themes emerged from the many comments made via the on-line survey. The most frequently

occurring were: improving efficiency in the council; reducing management costs; support for schools; and protect jobs.

140. A number of income generating proposals submitted as part of the consultation exercise continue to be considered as part of the council's ongoing transformation work. The Head of Strategic Finance has confirmed that further reports will be brought to members on their progress and contribution to the transformation of the work of the Council.
141. Future consultation will be driven by the council's People Strategy 2016-20, which contains an action to 'develop tools and guidance to support services when consulting and engaging with customers' (paragraph 163).
142. The updated best value improvement plan to be discussed at the Council meeting in September contains an action relating to community engagement

Local communities

143. The Community Empowerment (Scotland) Act 2015 gives community bodies new rights and the council new duties to boost community empowerment and engagement. The council has set up a working group to consider the Act.
144. The Best Value report highlights that Area committees, particularly through more strategic interaction with the local community planning groups, can play an important role in building better relationships with communities, in improving local empowerment and in delivering local plans and priorities. If they are to do this, the council needs to

develop the committees further. Current developments in this area include:

- one of the savings options agreed in February 2016 as part of the Service Choices process was reductions to the current Area and Central Governance services. This will include no support for partnership/community planning activity; fewer area-based decision making bodies (e.g. by reduced frequency of meetings); fewer central committees and reduced support for elected members. Support will also be provided by a smaller team with more focus on self-service for councillors
- at its meeting in April 2016, the Council agreed to set up a Short Life Working Group (SLWG) for the purpose of considering the future local democratic and governance arrangements of the Council. This will include area committees and examine how they can work better with communities
- prior to June 2016, decisions relating to disposals and leases were progressed through Area Committees, the Policy and Resources Committee or Council. A key recommendation as part of the Council's review of its Constitution in June 2016 was that procedures be revised to delegate all disposals to officers other than those at less than best consideration. However the Council agreed to delegate the Executive Director Customer Services (in consultation with the Leader, Depute Leader and the leader of the largest opposition group of the Council) to agree a suitable amendment to the wording of the key

recommendation taking into account concerns raised by members.

145. These developments will impact directly upon the role of Area Committees. The updated best value improvement plan to be discussed at the Council meeting in September contains actions relating to local empowerment.
146. Our 'Review of Asset Management' report includes a recommendation that as part of its preparations the council should engage with other local authorities, through the Scottish Heads of Property Group and other relevant groups, to support its development of draft policies and procedures in relation to the Community Empowerment Act. In their response, the council have confirmed that the working group will be tasked with reviewing any policies and procedures to ensure they meet the requirements of the Act.

Training and development for members

147. The follow-up report highlights that; "Councillors will increasingly need support to carry out their role in an increasingly complex environment, for example leading the process of health and social care integration successfully. They will also need support to manage potential conflicts of interest between their role in representing individual local communities, and their role as members of the Integrated Joint Board (IJB)."
148. Our follow-up enquiries have established that the Council continues to run an Elected Member Seminar Programme to support

development. This has a dedicated site on the intranet where members can access all presentations and which supports accessibility to information for members who were unable to attend the actual event. In addition, Twenty-five elected members now have a personal development plan.

149. The council's Head of Governance and Law has confirmed that training associated with the launch of "Casebook" (the new elected members case management system) has been rolled out in such a way as to be as widely accessible to members as possible. There has also been the option to undertake training on a 1-1 basis or to attend a workshop.
150. Where members undertake a specialist role requiring greater in-depth knowledge, arrangements are in place for enhanced training and development opportunities, for example:
- **Harbour Board:** specialist training on Port Marine Safety Code
 - **IJB:** Development Day for Chairs and Vice Chairs of Health and Social Care Partnerships, Programme of Development Days for IJB members covering topics ranging from Clinical and Care Governance to Risk Management.
 - **Planning, Protective Services & Licensing Committee:** programme of development activity in place which is also accessible to members not on the committee and can be attended in person or by VC.
151. We have concluded that the council has taken steps to develop training for members and should continue to explore all options for

providing member training and development based on individual needs.

152. The updated best value improvement plan to be discussed at the Council meeting in September contains an action relating to accessible training and development for elected members.

Conclusion on the overall progress being made

153. There are a number of parallel processes underway at present which will impact upon the political management arrangements of the Council. This, together with ongoing developments in other key systems and processes means that it is too early to assess the effectiveness of actions and plans being implemented. We have concluded that there is still work to be done by the Council to secure the improvements that were agreed by members in January 2016, in response to the 2015 Best Value Audit report.
154. To focus the council's improvement activity, the new Chief Executive has tasked officers with reviewing and consolidating the council's action plans by March 2017.

Procurement

155. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In December 2014 the council achieved an overall PCA score of 72% ("improved performance"), an increase from 63% last year.

- 156.** Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015 a new assessment regime was introduced as part of the new Procurement and Commercial Improvement Programme (PCIP). It came into effect on the 18 April 2016 and has new sections including fraud awareness & prevention and commercial acumen.
- 157.** The council's assessment under this new regime took place in June 2016. The council were assessed as being in the top band (of which there are twelve) with a score of 70.
- 158.** An updated Procurement and Commissioning Strategy covering the period 2015 - 2018 was approved by the PRC in August 2015. The strategy aims to deliver savings and Best Value, improve procurement processes and policies and increase expertise and capacity.

Performance management

- 159.** The Council's Planning and Performance Management Framework (PPMF) sets out a detailed process for ensuring that the council's resources are targeted towards delivering on the priorities as set out in the Single Outcome Agreement/Local Outcome Implementation Plan and the council's Corporate Plan. The PPMF makes provision for plans to be reviewed and scrutinised via a scorecard.
- 160.** At the core of the PPMF are the council's service plans, which contain outcome based budgeting, align service resources (financial and HR) with service, corporate and national outcomes and are

reviewed via service and departmental scorecards. A total of 312 success measures are monitored.

- 161.** A Corporate Improvement Strategy 2015-17, to support the delivery of the Council's priorities contained within the Corporate Plan 2015-2017, was approved by the PRC in August 2015. It was based on five main categories of improvement activity, underpinned by the development of a business improvement toolkit.
- 162.** The Council's People Strategy 2016-2020 incorporates themes and actions from the Corporate Improvement Strategy, the Employee Engagement Strategy, and the HR and OD strategy.
- 163.** The People Strategy sets out the Council's corporate approach to continuous improvement through the thematic areas of:
- Planning and Performance Management
 - Self Assessment
 - Scrutiny
 - Benchmarking
 - Consultation and Engagement
 - Delivering Change
- 164.** Each of these improvement themes in the People Strategy is accompanied by actions (47 in total) to achieve the council's strategic objectives. These include:
- services will be supported to simplify performance data and improve range and balance of performance information reported

- services are supported to refine scorecards and performance indicators to include richer cultural data.
 - develop tools and guidance to support services when consulting and engaging with customers
 - Improvement Toolkit developed to support services in identifying and implementing improvements.
- 165.** The PPMF sets out that there is alignment from the SOA down through service and team plans to individual employees. However in our view, the number of success measures monitored, together with the range of corporate and service specific strategies and plans, blur visibility and clarity around performance management. The PRS have also recognised this and are currently reviewing the PPMF. This is an area of work that we are pleased to hear has been included within the Chief Executive's priorities for 2016/17.
- 166.** Our enquiries have established that a focus over the next two years for the council will be to develop a programme of self-assessment. The council has also been working with the Improvement Service, using the Local Government Benchmarking framework data to identify areas where the council could share best practice or learning with other councils.
- 167.** The Head of Improvement and Human Resources has advised that the People Strategy was presented to the PRC in August and has confirmed that the People Strategy will go to the Council meeting in September for approval. The Strategy includes a series of SMART actions in the Improvement Action Plan. A timetable should be prepared for both the Policy and Resources Committee and the

PRS Committee to enable progress in implementing the agreed People Strategy to be monitored.

Recommendation 5

Overview of performance targets in 2015/16

- 168.** For the financial year 2015-16, a total of 312 success measures were monitored through service scorecards. Analysis of performance at the end of the year showed 203 (65%) were complete or on track against target. Additionally, 67 measures (21%) had no target and 42 measures (14%) were off target.
- 169.** Of the 312 indicators, 61 measures (20%) had no trend (mostly new measures), 90 measures (29%) showed constant performance, 76 measures (24%) showed a positive trend and 85 measures (27%) showed a negative trend.
- 170.** For 2015/16 there has been a 4.6% decrease in the Council actual average days lost per FTE employee decreasing from 10.56 in 2014/15 to 10.07 in 2015/16. In respect of the split between Teachers and LGE staff groups there has been a significant decrease from 8.2 to 6.86 for Teachers and a slight decrease from 11.2 to 11.05 for LGE staff.
- 171.** Stress remains the main cause of sickness absence and initiatives have been put in place to address this. A new Stress at Work Policy has been developed and mandatory Stress Awareness Training has been rolled out across the Council for all managers and staff.

172. Targets for maximising attendance during 2016/17 were agreed by the Council's Strategic Management Team at their meeting on 13 June 2016. They have set an annual target of 9.46 days lost per FTE representing the Council's goal to see 6% reduction in the total work days lost during the period 2016/17.

Statutory performance indicators (SPIs)

173. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

174. For 2015/16 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

175. We have reviewed the council's arrangements for collecting, recording and publishing data in 2015/16 and concluded that they are adequate.

Local performance audit work

176. In November 2013 Audit Scotland published a report entitled *Scotland's public sector workforce*. The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.

177. Audit Scotland asked external auditors, across the public sector, to undertake follow-up audit work on the 2013 report. A standard questionnaire based on the report's findings was issued to external auditors to complete.

178. Our follow-up audit highlighted that:

- overall workforce planning information was taken into account in the preparation of the council's budget strategy. Redundancy costs accounted for in 2015/16 were £1.215 million relating to 75 employees
- the council does not have an organisation-wide workforce plan. However, it does have an overarching Human Resources and Organisational Development Strategy
- during 2015, the council completed a project entitled Job Roles and Training Needs Analysis, to identify all mandatory training required for each post in the organisation.

179. As reported at paragraph 167, the council's People Strategy 2016-2020 was presented to the PRC in August 2016. This Strategy supports the delivery of the council's priorities contained within the Corporate Plan and draws together a number of key actions from

the council's existing HR and OD Strategy, Corporate Improvement Strategy and Employee Engagement Strategy.

180. Overall, we concluded that the council has taken appropriate steps to develop workforce planning arrangements.

National performance audit reports

181. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix III](#). The council has processes in place to ensure that all national reports and their impact on the council are considered by Members.

Outlook

182. Whilst progress is acknowledged, there is still work to be done by the Council to secure the improvements that were agreed by members in January 2016, in response to the 2015 Best Value Audit report. In particular, the council faces significant financial challenges over the coming years and the current approach to addressing these challenges is not sufficient. It is also important that the council continues to make progress with its current improvement plans and regularly assesses the impact of the improvements it makes. Argyll and Bute Council's updated best value improvement plan, due to be discussed by members at the Council meeting on 29 September 2016, will be critical to paving the way for the future.

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • detailed testing of journal entries • reviewed accounting estimates for bias • evaluated significant transactions that are outside the normal course of business • focussed testing of the regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • no unusual or inappropriate transactions were identified as part of detailed testing of journal entries • a review of accounting estimates did not show any instance of bias • no significant transactions outside the normal course of council business were identified • focussed testing of regularity and cut-off assertions showed controls were operating effectively • our conclusion is that there is no management override of controls at the council.
<p>Income</p> <p>Argyll and Bute Council receives a significant amount of income in addition to SG funding.</p>	<ul style="list-style-type: none"> • detailed testing of revenue transactions across each service area • testing of significant Grants received. 	<ul style="list-style-type: none"> • controls testing of Accounts Receivable found no weaknesses in council systems. • testing of significant Grants proved satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
<p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • focussed testing of the Council Tax and NDR Income Accounts. 	<ul style="list-style-type: none"> • no significant errors were identified through detailed testing of revenue transactions across each service area. • no significant issues were identified through focussed testing of the Council Tax and NDR Income Accounts. • our conclusion is that income streams are not materially misstated.
<p>Provisions</p> <p>This is an area of significant estimation based on management judgements. There are potentially areas in 2015/16, such as non- contractual holiday and equal pay claims, where it is not yet possible to give a definitive view on the likely outcome for the council.</p> <p>Risk: The ultimate cost to the council is greater than anticipated.</p>	<ul style="list-style-type: none"> • all provisions were reviewed with senior council officers for appropriateness and accuracy based on the information available • monitoring of all technical guidance in this area. 	<ul style="list-style-type: none"> • audit testing confirmed that all required provisions have been calculated appropriately.

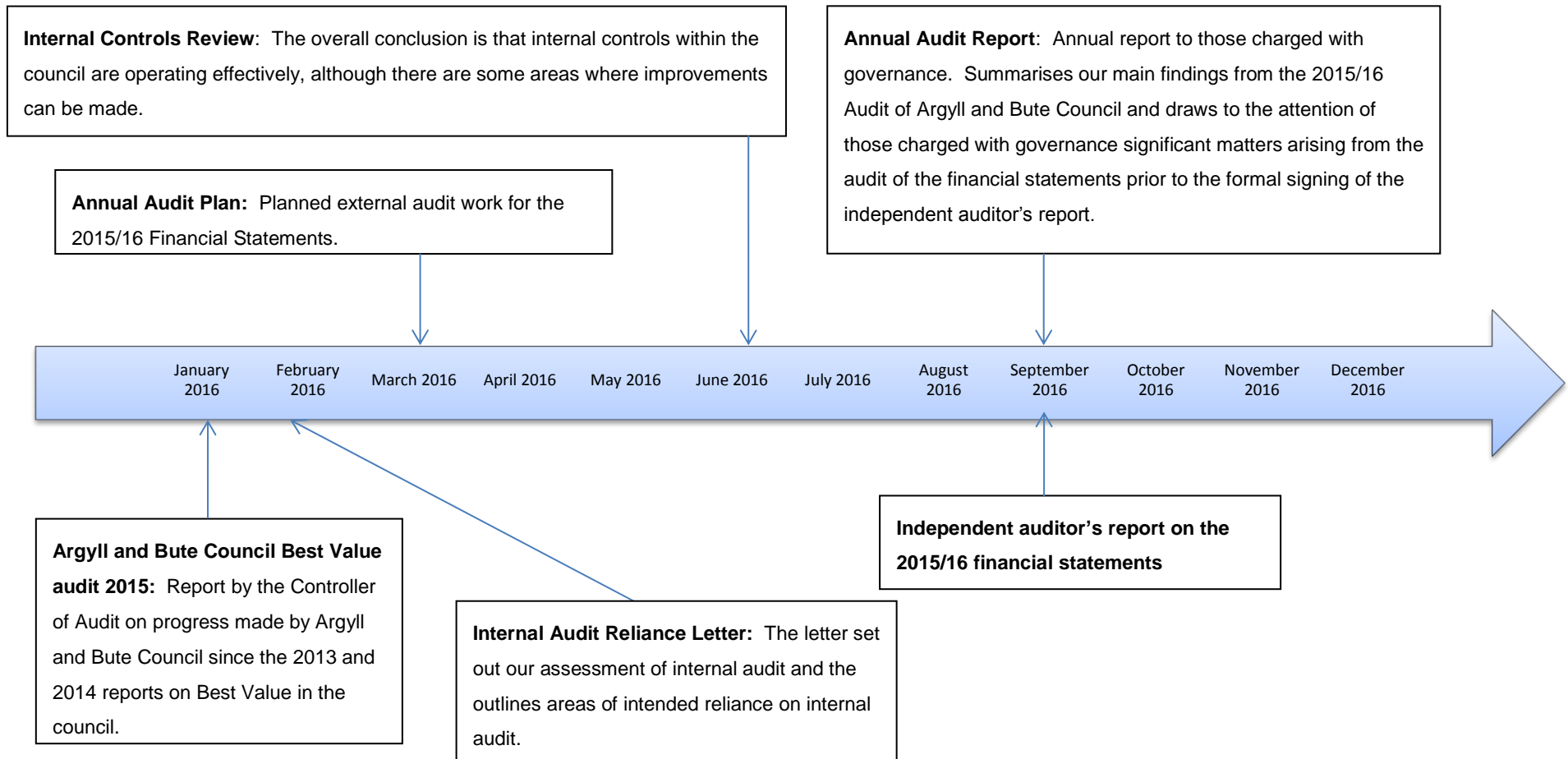
Audit Risk	Assurance procedure	Results and conclusions
<p>Heritage assets.</p> <p>Heritage Assets include two art collections valued in total at £1.140 million. The Argyll Collection (£0.649 million) was last valued in February 2010, however the other collection, held at various libraries and at the Campbeltown Museum (£0.491 million), was last valued in March 2004.</p> <p>Risk: Heritage assets are understated in the financial statements.</p>	<ul style="list-style-type: none"> the council's revalued museum and libraries art collection will be reflected in the 2015/16 accounts the council is to consider cataloguing the assets of the Campbeltown museum and the Argyll collection during 2015/16. 	<ul style="list-style-type: none"> the art collections have been included in the 2015-16 Accounts at their revalued amounts with regard to the other assets, the service is progressing with producing the inventory and have commissioned an expert from the Kilmartin House Museum to carry out this work.
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Financial Management</p> <p>The Council has agreed savings options of around £10 million in 2016/17 to meet the estimated funding gap for this year. Members recognise that achieving these savings will require significant change in the way the council operates.</p> <p>Risk: The council is unable to achieve the necessary savings.</p>	<ul style="list-style-type: none"> reviewed council papers and minutes to identify any potential areas of risk monitored revenue and capital budget monitoring reports throughout the year to identify any significant variances between budgeted and actual spend in order to highlight any potential issues. 	<ul style="list-style-type: none"> of the 125 service choices savings options agreed by the Council, 35 have already been delivered, 59 are on track to be delivered, 14 have still to be implemented, 14 have still to be developed and 3 are delayed as at 30 June 2016, the council forecast that the 2016/17 year-end outturn will be in line with budget.

Audit Risk	Assurance procedure	Results and conclusions
<p>Best Value follow-up</p> <p>The Controller of Audit will monitor progress against the findings and improvement areas identified in his December 2015 follow-up report through the annual audit process.</p> <p>Risk: The council is unable to demonstrate that action has been taken to address the findings and improvement areas identified.</p>	<ul style="list-style-type: none"> an updated best value improvement plan is due to be discussed at the Council meeting on 29 September 2016. 	<ul style="list-style-type: none"> it is too early to assess the effectiveness of actions and plans being implemented. the council needs to continue to make progress with its current improvement plans and regularly assess the impact of the improvements it makes.
<p>Workforce planning</p> <p>Delivering the required savings to meet the estimated future funding gaps will inevitably result in a reduction in the number of employees.</p> <p>Risk: Reduced workforce and a loss of intellectual capacity has an adverse impact on service delivery and staff morale.</p>	<ul style="list-style-type: none"> the council's Redundancy Policy seeks to achieve post reductions through voluntary means as far as possible. 	<ul style="list-style-type: none"> overall workforce planning information was taken into account in the preparation of the council's budget strategy and it underpinned the decision to offer voluntary severance as part of the budget management strategy redundancies have been made in accordance with the agreed Service Choices decisions.
<p>CHORD</p> <p>Our 2014/15 Report recorded that work on the Oban Bay/Harbour project had not progressed as planned and there is a risk that costs will exceed the budget on completion.</p> <p>Risk: There is a risk that costs of the project will exceed the budget for the project.</p>	<ul style="list-style-type: none"> monthly highlight reports are completed by Project Managers covering any issues and remedial action required in terms of timescale, budget, risks etc. and are reported to Development and Infrastructure Services Executive Strategic Project Board. 	<ul style="list-style-type: none"> planning permission for the North Pier Maritime Visitor Facility in Oban was granted in July 2016 and a Full Business Case is now being written to present for determination in October 2016 Oban Public Realm works are approaching completion and the current projected outturn is within the available budget.

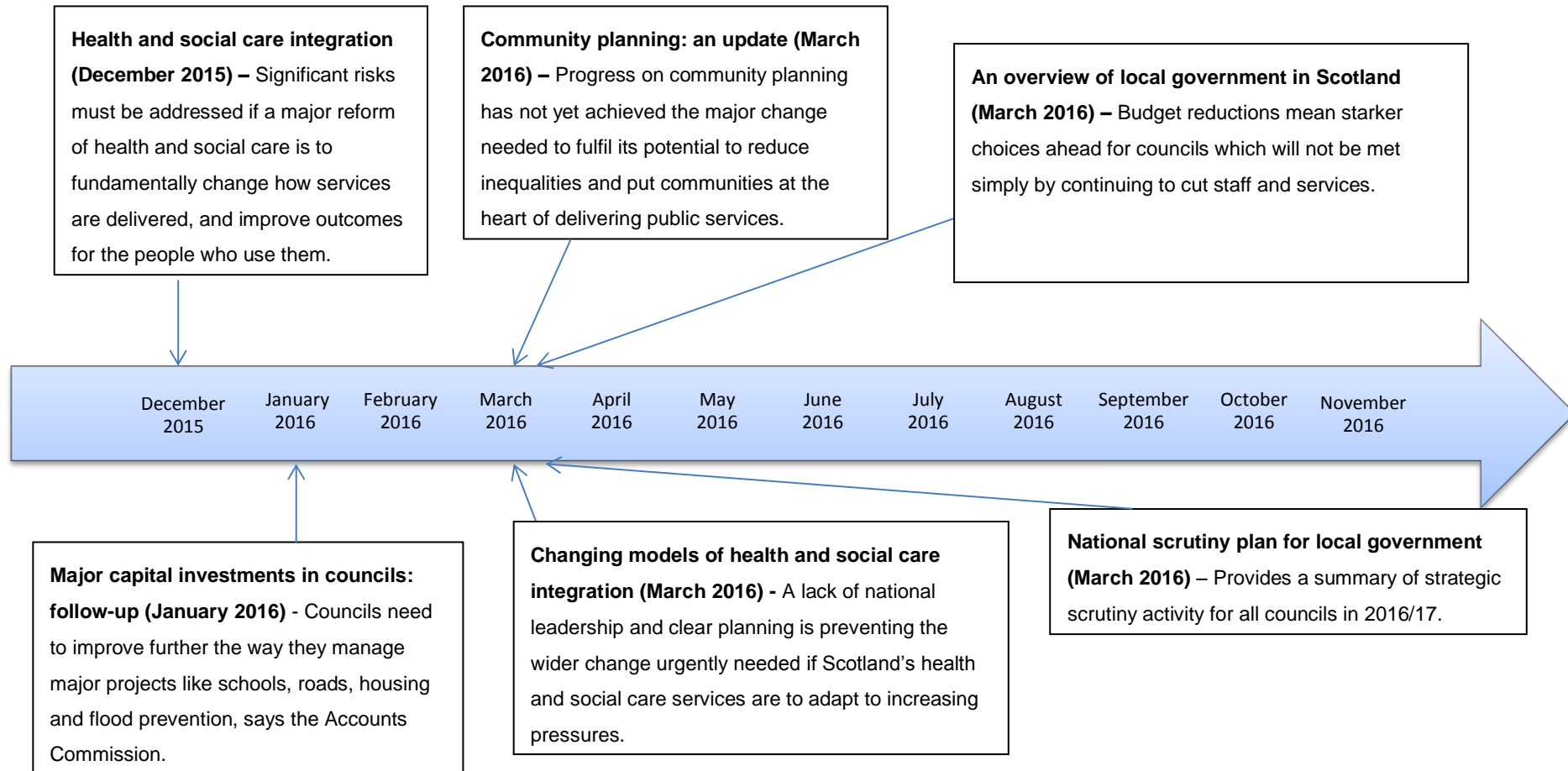
Audit Risk	Assurance procedure	Results and conclusions
<p>Argyll and Bute ADP</p> <p>Our report into the commissioning process that the council used, on behalf of Argyll and Bute's ADP, for community-based addiction recovery services contains a number of recommendations to the council and the ADP.</p> <p>Risk: The council and the ADP are unable to demonstrate that action has been taken to address the recommendations.</p>	<ul style="list-style-type: none"> the findings from our review have been accepted by the ADP Executive and were presented to the Community Planning Partnership Management Committee on 17 June 2015 the report was also considered by the council's Audit Committee on 19 June 2015 and the PRS Committee on 27 August 2015. 	<ul style="list-style-type: none"> we have confirmed that the recommendations arising from the review and relating to the council are complete.
<p>Health and social care integration</p> <p>Argyll and Bute Integration Joint Board (IJB) was established on 18 August 2015 although services will not become operational until 1 April 2016.</p> <p>Risk: The IJB is not prepared to take on services in line with the statutory timetable.</p>	<ul style="list-style-type: none"> the integration programme is on target in terms of progress towards the establishment of the Argyll and Bute Health and Social Care Partnership by the 1 April 2016. 	<ul style="list-style-type: none"> the IJB became operational on 1 April 2016 the 2015-16 Accounts for the IJB have been subject to a separate audit.
<p>Infrastructure Assets</p> <p>The Code requires an authority 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.</p> <p>Risk: The council has not prepared the</p>	<ul style="list-style-type: none"> Strategic Finance staff are aware of the new requirements and the required figures are being collated. 	<ul style="list-style-type: none"> discussions with Strategic Finance staff have confirmed that progress is being made to collate all the information required for the accounting change.

Audit Risk	Assurance procedure	Results and conclusions
information needed to include the appropriate disclosures in 2015/16 and meet the change in accounting requirement for 2016/17.		

Appendix II: Summary of Argyll and Bute Council local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	56	<p>Financial Planning</p> <p>The funding gap over the three year period 2017/18 to 2019/20 is estimated at between £16.9 million and £33.9 million with a gap of between £3.4 million and £10.5 million in 2017/18. Members have not yet agreed a budget strategy to balance the budget over this period.</p> <p>Risk</p> <p>The council is unable to achieve the necessary savings.</p> <p>Recommendation</p> <p>The council should ensure that robust plans are produced covering all required savings linked to service delivery proposals.</p>	<p>Robust plans to address the budget gap for 2017-18 will be produced and medium and longer term strategies will also be developed. This would be aided if we were in receipt of more than a single year funding settlement.</p>	<p>Head of Strategic Finance</p> <p>Ongoing</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	67	<p>Transformational savings</p> <p>With the exception of creating an Asset Management and Investment Fund and proposals to create a charitable leisure trust, transformational savings undertaken or proposed generally relate to internal management actions. The council has already made progress in challenging delivery of services but will require to further challenge services in order to deal with its financial challenges and provide more sustainable services going forward</p> <p>Risk</p> <p>Without significant service reform it is unlikely the current approach will deliver the savings needed.</p> <p>Recommendation</p> <p>The Council will need to continue to fundamentally challenge the way it delivers services to respond to its financial challenges.</p>	A transformation working group has been created to take transformational issues forward which includes looking at how we can do things differently.	Executive Director of Customer Services (Chair of Transformation Working Group)
				Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	103	<p>Gourock to Kilcreggan ferry service</p> <p>As a result of late payment, most invoices issued to Clydelink for berthing dues continue to be subject to follow up action through the corporate sundry debtor process.</p> <p>Risk</p> <p>The council may not receive all berthing fees due.</p> <p>Recommendation</p> <p>The Council should continue its efforts to have money deducted from Clydelink at source by SPT in relation to unpaid berthing dues.</p>	<p>The council will continue to work with SPT towards a long term resolution to this issue.</p>	<p>Executive Director of Development and Infrastructure Services/ Timescale will be determined by SPT for the conclusion of these contractual arrangements.</p>
4.	132	<p>Best Value Improvement Actions</p> <p>In January 2016, the Council agreed to the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings of December 2015.</p> <p>Risk</p> <p>The Council is unable to assess the effectiveness of actions and plans being implemented.</p> <p>Recommendation</p> <p>Members and officers will need to monitor the effectiveness of these actions.</p>	<p>An updated best value improvement plan is due to be discussed by members at the Council meeting on 29 September 2016.</p> <p>The Chief Executive has tasked officers with reviewing and consolidating the council's action plans by March 2017.</p>	<p>Chief Executive/Ongoing</p> <p>Chief Executive/March 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	167	<p>People Strategy</p> <p>The Council's People Strategy is supported by an action plan to be monitored by both the Policy and Resources Committee and the PRS Committee. The action plan contains 47 action points to be implemented in order to achieve the council's strategic objectives.</p> <p>Risk</p> <p>The Council is unable to assess the effectiveness of actions and plans being implemented.</p> <p>Recommendation</p> <p>A timetable should be prepared for both the Policy and Resources Committee and the PRS Committee to allow progress in implementing the agreed People Strategy to be monitored.</p>	<p>Head of Improvement and HR to propose timetable for reporting on the SMART actions in the People Strategy to the Policy and Resources Committee and PRS Committee for incorporating in their work plans.</p>	<p>Head of Improvement and HR November 2016</p>