

# Argyll and Bute Council

2016/17 Annual Audit Report **DRAFT**



 AUDIT SCOTLAND

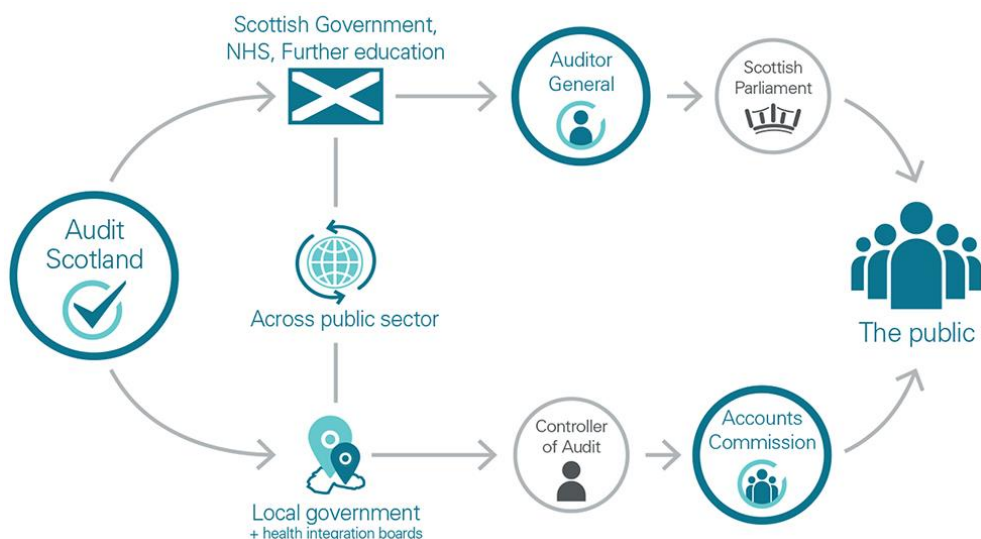
To Members of the Argyll and Bute Council and the Controller of Audit

September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 We issued an unqualified audit opinion covering the Council's financial statements, management commentary, remuneration report and annual governance statement.
- 2 Our audit opinions for the eight charitable trusts administered by the Council were unqualified.

## Financial management

- 3 Financial management has been effective in 2016/17, with the Council reporting an underspend against budget of £2.883 million. Total usable reserves have increased by £1.334 million to £58.449 million.
- 4 Our testing of the design and operation of internal financial controls confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

## Financial sustainability

- 5 The Council has an adequate level of reserves, consistently contains its expenditure within annual budgets and has met its savings efficiency targets. It has three-year financial plans that are aligned to Council priorities.
- 6 The Council's financial position is sustainable in the medium term although rising demand, increasing costs of services and pressures on central funding will continue to place a strain on the Council's capacity to deliver services at the current levels. Funding gaps of £3.3 million and £9.3 million for 2018/19 and 2019/20 respectively were identified by the Council as necessary savings targets.
- 7 With principles of medium to long-term financial strategy agreed by members, the Council now needs to finalise developing its long-term financial strategy. The Council also needs to conclude developing its strategic workforce plan to ensure that it has the required capacity and skills to deliver effectively its services in the future.

## Governance and transparency

- 8 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council. The Council has improved the level of openness and transparency with which it conducts its business.

## Value for money

- 9 Our Best Value audit follow-up found that a range of improvement activities had been introduced, with evidence of good progress having been made in addressing previous recommendations, however,

**measures taken will require time to fully develop and demonstrate significant and lasting improvement.**

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Argyll and Bute Council.
2. The scope of the audit was set out in our Annual Audit Plan, presented to the 24 March 2017 meeting of the then Audit Committee. This report comprises:
  - an audit of the annual report and accounts
  - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the Council's main financial systems and governance arrangements
  - audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources, and a follow up review of actions in response to the Best Value report issued in December 2015.
  - an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. Argyll and Bute Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority

Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Argyll and Bute Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 34\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

**We issued an unqualified audit opinion on the Council's annual report and accounts.**

**We gave unqualified audit opinions on the trusts administered by the Council.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Council on 29 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charitable trusts administered by Argyll and Bute Council

**15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Argyll and Bute Council are sole trustees, irrespective of the size of the charity.

**16.** For 2016/17, the Council reduced the number of charitable trusts where it is the sole trustee from nine to eight, but has encountered some legal obstacles to reducing the number further.

**17.** Our duties as auditors of the charitable trusts administered by Argyll and Bute Council are to:

- express an opinion on whether the charities' financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

The Council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.



18. We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of:

- Baillie Gillies Bequest
- County of Argyll Education Trust Scheme 1960
- Kidston Park Trust
- Logie Baird prize Fund
- Marquess of Bute Silver Wedding Dowry
- McCaig Trust
- Miss Annie Dickson Burgh Bequest
- Oban Common Good Fund

### Submission of the Council's annual report and accounts for audit

19. We received the unaudited annual report and accounts on 30 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of Argyll and Bute Integration Joint Board. [TBC] Suitable assurances were obtained from the auditors of the Integration Board and NHS Highland in relation to internal financial controls over IJB related expenditure.

20. The working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

### Risk of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

### Materiality

22. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

23. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in Exhibit 2 below. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

24. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations. The revised amounts were not significantly different and there was no impact on the audit approach.

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## Exhibit 2

### Materiality values

Materiality level	Annual Audit Plan	Final Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It	£3.353	£3.466 million

Materiality level	Annual Audit Plan	Final Amount
was set at 1% of gross expenditure for the year ended 31 March 2017.	million	
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£2.012 million	£2.079 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality, rounded up.	£34 thousand	£35 thousand

Source: Audit Scotland Annual Audit Plan 2016/17

## How we evaluate misstatements

**25.** There were no material adjustments to the unaudited financial statements arising from our audit. Misstatements which have been corrected are noted in Exhibit 3 below. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements, with the exception of an error which related to the calculation of the accrual for unpaid holiday pay (see Exhibit 3 below).

**26.** It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

## Significant findings

**27.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in Exhibit 3 (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).

## Exhibit 3

### Significant findings from the audit of Argyll and Bute Council

Issue	Resolution
<p><b>1. Non current asset additions</b></p> <p>We noted in our testing of capital additions during the year that the amount included as capital creditors at the year end included NPDO solar panels. The amount was found to be based on an earlier estimated business case rather than on the final version. The result was that the asset accounts value, and the underlying creditor amount, were both overstated by £345,205 ie no impact on net assets of the Council.</p>	<p>This has been corrected in the final version of the financial statements.</p>

Issue	Resolution
<p><b>2. Non current asset classification</b></p> <p>Kirn Primary School is being rebuilt on the site of the previous school, with all pupils decanted while works are ongoing. However, the costs have been included as an Operational Asset within land and buildings rather than as an Asset Under Construction (AUC). Also, assets under construction do not attract depreciation whereas depreciation has been charged against this asset as it has been classified as operational in the asset register.</p> <p>The Net Book Value at year end per the draft accounts is £5,257,268. Total costs to date £5,535,753 should be transferred to AUC, and depreciation charged to date of £278,485 written back to revenue.</p>	<p>This has been corrected in the final version of the financial statements.</p>
<p><b>3 Impairment reviews</b></p> <p>From our review of Assets Under Construction we noted a number of assets where there had been no movement during 2016/17. One project, Campbeltown Old Quay, was recorded in the accounts at £1.148m but had no movement for over 2 years. Whilst there were identifiable reasons for these long pauses in project activity, management should review these projects annually for potential impairment.</p>	<p>The Council should carry out impairment reviews for all significant assets including Assets Under Construction.</p> <p><a href="#">Action plan (appendix 1, point 1)</a></p>
<p><b>4. Holiday pay accrual</b></p> <p>An element of the underlying calculation of the liability is based on the NI contribution. The rate used was 10.4% however, from April 2016, the rate increased to 13.8%. As a result the accrual, and total staff costs, are understated by £110,681.</p> <p>The percentage used to incorporate Other Staff into the calculation was based on a sample of employees from 2010/11. Management should update the sample data used in the calculation.</p>	<p>This has not been adjusted, however it is not a material sum and has been treated as an unadjusted error. (see paragraph 25)</p> <p>Sample data used to calculate accrual for holiday pay should be reviewed to confirm its continued suitability.</p> <p><a href="#">Action plan (appendix 1, point 2)</a></p>
<p><b>5. Tax incremental financing (TIF)</b></p> <p>Additional 2016/17 non domestic rates (NDR) income of £82,143, due from Scottish Government in relation to TIF projects, was not included in the draft accounts.</p> <p>The result was that NDR income and amounts due from SG were understated. As income from this source falls to be credited to Capital Adjustment Account, there was no impact on General Fund.</p>	<p>This has been corrected in the final version of the financial statements.</p>

Issue	Resolution
<p><b>6. Heritage assets</b></p> <p>The council owns museum exhibits which are not included within Heritage Assets as no detailed inventory exists. The council agreed to consider cataloguing the assets at the Campbeltown Museum and the Argyll Collection during 2015/16, however, this exercise has not yet been completed.</p>	<p>Work on this is progressing, but has proved to be more onerous than first envisaged. Management aim to have this completed during 2017/18.</p>

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### Recommendation 1

**The Council should carry out impairment reviews for all significant assets including Assets Under Construction.**

### Recommendation 2

**Sample data used to calculate the accrual for holiday pay should be reviewed regularly to confirm its continued suitability.**

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### Going concern

**28.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

### Other findings

**29.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

### Objections and Whole of Government Accounts

**30.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations.

The Council submitted a consolidation pack for the whole of government accounts audit on 12 July, 2017. Due to the impact that accounting for Argyll and Bute Integration Joint Board has on the figures reported in the accounts, the Council will exceed the £350 million threshold set for the requirement for an audit of the whole of government accounts return. We expect to complete our audit of the Council's whole of government accounts return by the deadline of 30 September, 2017.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget setting process focused on the Council's priorities.**

**The Council has, over the last five years, consistently contained its expenditure within annual budgets.**

**The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.**

### Financial performance in 2016/17

**31.** In February 2016 the Council approved a balanced budget of £237.953 million for 2016/17. This balanced position was arrived at after a range of measures were identified to meet a funding gap of £10.432 million, including operational savings of £1m, Service Choices options £5.2 million, other savings of £3.6 million and one off use of reserves £0.580 million.

**32.** The Council has a good track record in delivering services within budget over the last five years, and the final outturn for 2016/17 was an overall underspend of £2.883m on funding of £237.956m.

**33.** The departmental underspend was £1.038m in total with £0.887m of this deriving from Customer Services. The principal reasons were additional savings from not filling vacant posts (identified as 2017/18 savings under Service Choices), and insurance and utility cost savings on NPDO contracts.

**34.** Other significant elements of the overall underspend were loan charges which were underspent by £1.044m as a result of borrowing being deferred, and increased funding of £0.779m mainly from successful recovery of outstanding sums due.

### Efficiency savings

**35.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**36.** Local authorities are required to prepare and publish an Annual Efficiency Statement for each financial year. The statement for 2016/17 can be found on the Council website. The Policy and Resources Committee routinely receives budget monitoring reports including progress against savings plans.

**Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.**

**37.** For 2016/17 the efficiency savings target was at least 3% of funding. Scottish Government funding of the Council for 2016/17, excluding Non Domestic Rates, was £166.251 million, so the target for efficiency savings was £4.988 million. The Council achieved actual savings of £6.713 million, or 4% and the Council therefore achieved its efficiency savings target for 2016/17.

## **Borrowing in 2016/17**

**38.** The Council's external borrowing as at 31st March 2017 was £170.53 million, an increase of £12.413 million on the previous year. The increase was a result of new borrowing from the Public Works Loans Board (PWLB) of £25 million, less £8.9 million of loan repayments to PWLB, an interest free loan of £0.4 million from Salix (interest free loans to public bodies for energy efficiency projects) for a Street Lighting project and a managed reduction in temporary borrowing of £4.0 million. [Exhibit 4]

**39.** During 2016/17 there was significant volatility in PWLB rates, with rates falling during quarters 1 and 2 to reach notably low levels in July and August. The Council took advantage of the low rates available, and the opportunity to reduce refinancing risk, by repaying some existing PWLB loans while increasing total PWLB debt.

**40.** The Council utilises temporary borrowing to assist in managing cash flow pressures particularly around the year end. In 2015/16, £7m of short term loans were obtained prior to the year end to address cash flow pressures, whereas the requirement for 2016/17 was only £3m. Levels of temporary borrowing are therefore closely linked to liquid cash balances held by the Council in the lead up to the financial year end.

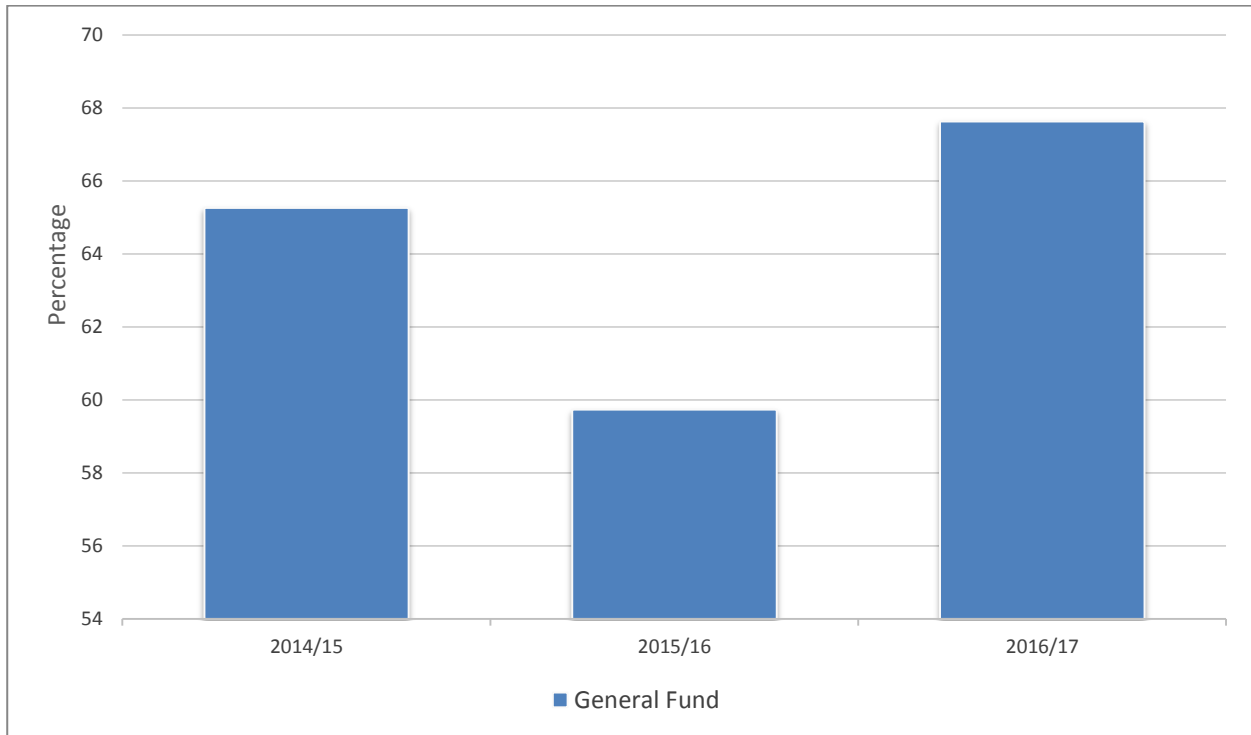
**41.** Lender Option Borrower Option (LOBO) loans; A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan. Argyll and Bute Council has £40.255 million of LOBOs within its market debt portfolio,

**42.** Based on our work we can conclude that;

- the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the Council's LOBOs were lower than the comparable PWLB rates available at the time,
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders,
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

## Exhibit 4

Overall indebtedness as a % of Taxation and non specific grant income over past 3 years.



Source:

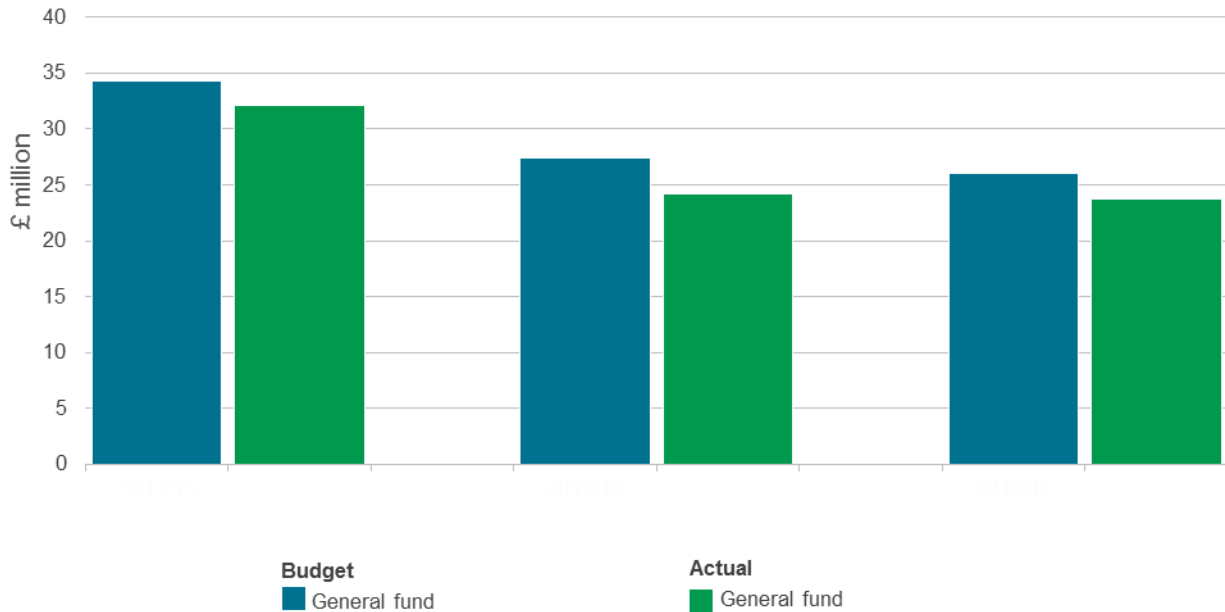
## Capital programme 2016/17 to 2019/20

**43.** The Council approved a capital programme of £109m for the four year period in February 2016. This was revised upward in August 2016 as a result of an additional £5.615m of funding becoming available.

**44.** Capital expenditure in 2016/17 was £23.751m against a budget for the year of £26.079m, resulting in an underspend of £2.382m. This slippage was identified as relating principally to the Council's CHORD development projects, NPDO Schools Solar Panel Installations and to the Carbon Management Group Heating Conversion Project. The Council has a history of slippage in its capital programme as outlined in Exhibit 5, however, there is no indication that this has had any impact on service delivery.

## Exhibit 5

### Capital slippage compared to budget



Source:

45. Regular monitoring reports to the Policy and Resources Committee track project delivery and forecast outturn both in year and across the 3-5 years of the current plan. Whilst the slippage in each year, as set out in the comparison above, has only been due to net slippage of projects between financial years, it is an area that the Council should keep under review.

### Budgetary monitoring and control

46. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.

47. We reviewed the Council's budget monitoring process and considered internal audit's review of financial planning and budget monitoring activities, reported in August 2016. We found that:

- Financial monitoring reports (revenue and capital) are included in a comprehensive financial reports monitoring pack and discussed at the Policy and Resources Committee every two months. The information presented in the pack is appropriate and sufficiently detailed to support effective scrutiny.
- Internal audit provided reasonable assurance for this area. Its review of budget monitoring reports, provided to budget holders on a regular basis by Strategic Finance, found that these were accurate. This was supported by the budget holders' view that the reports were timely, accurate and relevant. Identified areas for improvement related to the recording of cost and demand pressures and a forecast outturn position in the budget holder engagement logs, including planned earmarking within budget monitoring and forecasting protocols, and using trend analysis and unit costing in the budget monitoring process.

48. Within the Council the detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives regular revenue and capital



monitoring reports. From our review of these reports we concluded that they provided a good overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out effective in year scrutiny of the Council's finances.

## Budget setting

**49.** We followed up on areas for improvement set out in our report on the 2016/17 budget setting process. From our attendance at the 2017/18 budget setting meeting, and from reviewing minutes of the meeting, we have confirmed that officers have addressed the report recommendations:

- The budget proposals included a clear breakdown of how a balanced budget would be made up. The amendments proposed at the budget setting meeting primarily focussed on allocating the additional funding announced by the Cabinet Secretary for Finance and the Constitution on 15 December 2016. This included £2.4 million of revenue and £0.7 million of capital funding.
- The Head of Strategic Finance reminded members of the recommendation in our report on the 2016/17 budget setting process for members to consider circulating proposals for any significant changes to the budgeting pack in advance of the Council meeting. Although the alternative budget proposals were tabled on the day rather than, as good practice would indicate, circulated in advance with agenda papers. However, the proposed changes to the budget focussed primarily on allocating the additional funding rather than significantly changing the existing budget proposals.
- The minutes of the budget setting meeting were comprehensive and clear.
- We also found that the Head of Strategic Finance commented appropriately on each alternative budget proposal and confirmed that each presented a suitably balanced budget.

## Financial capacity within the Council

**50.** The Section 95 officer is the Head of Strategic Finance who is a member of the senior management team and has direct access to the chief executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council. The finance team has sufficient numbers of qualified and experienced staff and appropriate training and succession planning is in place.

**51.** With the recent Council elections there have been a number of new members elected. Soon after taking office, new and returning members received induction training which included material on how the Council works and how it is financed. We reviewed the training provided to new members and concluded that it had been appropriately designed, and should aid them in exercising their scrutiny responsibilities effectively.

## Internal controls

**52.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**53.** Our findings were included in our interim audit report presented to the Audit Committee on 27 June 2017. We concluded that, overall, the Council's systems of internal control are effective. No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report

financial and other relevant data so as to result in a material misstatement in the financial statements.

**54.** The Annual Governance Statement confirms that an annual review of the effectiveness of the system of internal control is carried out, and that it is the Council's view that systems of internal control are operating effectively.

### Prevention and detection of fraud

**55.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.

**56.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

### National Fraud Initiative

**57.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**58.** The latest position on NFI investigations by the Council is summarised in Exhibit 6.

## Exhibit 6

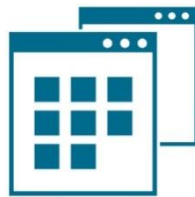
### National Fraud Initiative

**Total number of matches**



7,672

**Number recommended for investigation**



1,092

**Completed/closed investigations**



1,223

Source: NFI website

**59.** For the current NFI exercise, 7,672 matches were identified in total, with 1,092 of those in the category recommended for investigation. Administration of the process is well organised and resourced, with staff in appropriate departments involved in investigation of matches. Internal Audit has a role in overall monitoring of progress.

**60.** Reasonable progress has been made in following up recommended matches, with just under 700 of those having been processed to date. Regular updates are provided as a standing agenda item to each Audit Committee meeting, however, very little detail is provided, with no regular update on numbers of matches, progress on follow up, or outcomes until the conclusion of the exercise. There could be improvements made in the level of detailed reporting to the Audit and Scrutiny Committee.

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### Recommendation 3

**Additional detail on progress with processing NFI matches should be provided to Audit and Scrutiny Committee as a standing agenda item during the course of the NFI process.**

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**61.** The Council is pro-active in investigating matches, employs a significant level of staff resource in the process and provides regular updates to Audit and Scrutiny Committee. An area of good practice noted was the Council's use of an outsourced independent matching service (Datatank) twice yearly to identify council tax discount fraud.

# Part 3

## Financial sustainability



### Main judgements

**The Council's financial position is sustainable in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.**

**With the principles of its medium to long-term financial strategy agreed by members, the Council now needs to finalise the development of its long-term financial strategy. The Council also needs to conclude the development of its strategic workforce plan to ensure that it has the required capacity and skills to deliver effectively its services in the future.**

**The Council has an adequate level of reserves and has three-year financial plans that are aligned to the Council priorities and demonstrate how it will address future budget challenges.**

**The Council needs to continue the development of its savings proposals for 2018/19 and 2019/20.**

### Financial planning

**62.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council

**63.** The Council has developed a three year Budget Outlook report, which is updated through the year, to provide a more up to date financial position for members. It is prepared using three different scenarios; Best case/Worst case/Mid range. The latest 2018/19 to 2020/21 Budget Outlook, updated to August 2017, is based on the approved budget for 2017/18.

**64.** The Council has also recognised the need to develop a medium to long term financial strategy which demonstrates how the Council will respond to demands and pressures whilst continuing to meet its communities' needs. The financial strategy will be developed during 2017. Key to this strategy will be a set of principles which have been identified and approved by Council in February 2017;

- Resources aligned with the Local Outcome Improvement Plan (LOIP)
- Direct provision versus commissioned services (make or buy)
- Digital transformation
- Shared Services

**Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.**

- Commercial activities (via trading accounts)
- Arm's Length External Organisations (ALEOs)
- Commercial sponsorship
- Investment opportunities
- Volunteering for core services
- Fully centralised procurement
- Engaging Trade Unions in full partnership
- Shared and improved asset utilisation
- Management structure
- Work patterns and shift arrangements

**65.** We consider the approach taken by the Council in addressing its medium to long term financial position to be soundly based and realistic in its treatment of funding uncertainty and utilisation of varying scenarios in its budget outlook reporting. The underlying principles recognise the need to consider all aspects of Council activity and all available options for service redesign as an integral part of the strategy. We will monitor the development of the financial strategy during 2017, and report on progress as part of our 2017/18 audit.

## Funding position

**66.** The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and reductions in central government funding.

**67.** On 23 February 2017, the Council agreed a balanced budget for 2017/18 with a surplus of £193k. Indicative budgets forecast a funding gap of £3.3 million for 2018/19 rising to £9.3 million for 2019/20.

**68.** The latest Budget Outlook 2018/19 to 2020/21, presented to Policy and Resources Committee 17 August, has updated the three year forecast funding gap as follows;

- Best Case - £10.200 million (£2.033 million in 2018/19)
- Mid Range - £17.414 million (£4.573 million in 2018/19)
- Worst Case - £29.101 million (£8.689 million in 2018/19)

**69.** The Council's approach to meeting the required savings is currently under development. This creates a financial sustainability risk for the Council as the level of necessary budget savings may adversely affect the level and quality of service provision.

## Savings plans

**70.** As outlined in paragraphs 35 to 37 the Council achieved its efficiency savings target in 2016/17.

**71.** The Council agreed a balanced budget of £235.680m for 2017/18, with a small surplus of £0.193m. The funding gaps of £3.3 million and £9.3 million for 2018/19 and 2019/20 respectively were identified by the Council as the necessary savings targets. The approach to achieving these savings will be by a combination of efficiencies, transformational change and service reductions. Detailed savings proposals for 2018/19 and 2019/20 are currently being developed, using the principles contained in the financial strategy, for presentation to the Council at a future date. We will monitor progress and review emerging proposals as part of our 2017/18 audit.

## Reserves

**72.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council increased from £57.115 million in 2015/16 to £58.449 million in 2016/17.

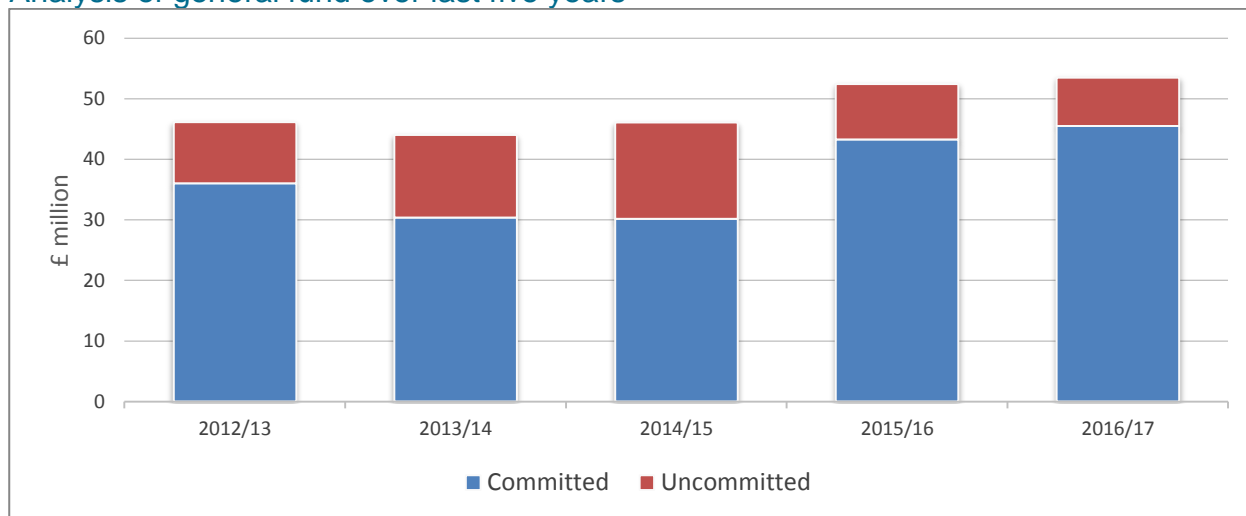
**73.** The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

**74.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The General Fund balance at 31 March 2017 was £53.489m, with a revised figure for earmarked amounts of £41.519m leaving £11.97m. The Council also agreed to a set aside of £4m towards budget smoothing for 2019/20, which reduces the unallocated General Fund balance to 7.97m. The Council's approved reserves strategy specifies that uncommitted contingency reserves should be 2% of the Council budget for the following year. For 2017/18 this translates as £4.671m. This results in an unallocated reserves figure of £3.299m.

**75.** Exhibit 9 provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. We consider that the overall level of useable reserves held by the Council is reasonable.

### Exhibit 9

#### Analysis of general fund over last five years



Source:

## Workforce planning

**76.** Audit Scotland's [Local government in Scotland – performance and challenges 2017](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**77.** The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**78.** We noted in our Annual Audit Plan issued in March 2017 that a People Strategy 2016-2020 had been approved by the Council in September 2016, but that it did

not contain any detailed information regarding, for example, future projections for staff numbers. Management confirmed then that workforce planning was starting to be developed, with discussions at service level on required skills and capacity.

**79.** Work to date has involved HR officers meeting with managers and staff across all services to gather workforce profile information. The following key factors and related developments were identified from the meetings with services;

- **Difficulties recruiting and retaining qualified professional staff** – there are plans to use social media as part of recruitment process, and to promote recruitment jointly with the Community Planning Partnership.
- **Difficulties with succession planning**
- **Importance of leadership development** – the leadership programme for managers and Chief Officers was delivered.
- **An aging workforce** – Growing Our Own programme in place, to encourage young people into the workforce. Integrated framework for trainees developed, from Modern Apprentice to Graduate Trainee.
- **Need for alternative routes into professional and technical roles**
- **Need for more accessible training** – an increased number of e learning training courses is available.
- **Positive practices to be shared across the Council** – A 5 year programme of sponsoring social work degree students, joint development of education qualifications with local college and universities, and development of social care SVQs.

**80.** In August, a draft of the Strategic Workforce Plan was considered and agreed by the Strategic Management Team. Further development of the plan is necessary to incorporate Council priorities, and issues deriving from the medium to long term financial strategy and the Transformation Programme. However, it is expected that the completed plan will be presented to Policy and Resources Committee for adoption in December.

**81.** This is a key area of development for the Council and the further development of workforce planning activity should be expedited.

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#### Recommendation 4

**The Council should continue to progress their developments in workforce planning as a key priority. There is a risk that, without the necessary planning in place, the Council may not have the required capacity and skills to effectively deliver its services in the future.**

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# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees.**

**The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Minutes of committee meetings and agenda papers are readily available on the Council's website for public inspection.**

### Governance arrangements

**82.** Elected 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.

**83.** Citizens and other service users should be able to hold the council to account regarding 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.

**84.** The Council operates a Local Code of Corporate Governance which is subject to annual review by the Council Governance Group, the last review having taken place in June 2017 to cover 2016/17. An Action Plan is maintained to record areas where work is ongoing, or requires to be undertaken to improve governance arrangements. Based on the annual review for 2016/17, the Audit Committee approved the revised Code for 2016/17, the Action Plan 2017/18 and a draft statement of governance and internal control for 2016/17.

**85.** As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at Council and committee meetings. The main findings from this work were:

- At a number of Council and audit committee meetings we attended, we observed appropriate level of challenge being applied to decision making.
- The Council's website is in line with good practice in the way it sets out committee information, agendas, papers and minutes. It is easy to navigate with a high level of transparency and openness. Access to the Council's information and committee papers is readily available to the stakeholders. Agendas and papers are available online prior to meetings and minutes are attached in a timely manner. However, we noted that members' interests did not include all information required by the Councillors' Code of Conduct.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.



Arrangements are now in place to have a fully collated Register of Interests published on the Council website.

- Although, overall, members and staff observe high standards of conduct and behaviour, long-standing political and personal differences remained among a small number of key individuals in Argyll and Bute Council. Some of these continued to be played out in a public way. During the year, one case was upheld by the Standards Commission, and a councillor censured for breach of the Councillors' Code of Conduct. In our interim report in June, we noted the risk that, if such public disagreements were to persist, the Council's image and reputation would be damaged further with potential implications for relations with local communities and for management effectiveness.
- The Council has taken steps to improve member training and development, including the introduction of a new members' induction programme in time for the May 2017 local government elections. This included training on standards and leadership with an emphasis on developing positive relationships with others. Early signs have been that interaction amongst new members has been appropriate.

**86.** Overall we concluded that the Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees and are increasingly supportive of good governance and accountability.

## Management commentary, annual governance statement and remuneration report

**87.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**88.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

## Internal audit

**89.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

**90.** The internal audit function is carried out by the Council's own Internal Audit Section. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**91.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: Continuous monitoring programme of main financial systems and Procurement. Also, we considered internal audit report findings as part of our wider dimension audit work.

## Transparency

**92.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

**93.** There is evidence from a number of sources which demonstrates the Council's commitment to transparency. Members of the public can attend meetings of the full Council and committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

**94.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.

**95.** The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.

**96.** Overall, we concluded that the Council conducts its business in an open and transparent manner. This is further addressed at paragraphs 110-111 of this report.

## Integration of health and social care

**97.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

**98.** Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value.

**99.** The Argyll and Bute Integration Joint Board (IJB) is provided in partnership with NHS Highland and became fully operational on 1 April 2016. Appropriate financial transactions and balances of the IJB have been consolidated into the Council's group accounts. [TBC]

**100.** The Council and its NHS partner have plans in place to make health and social care integration work effectively. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is not due until spring 2018, and auditors will be in a better position to assess progress once the work on this report has been completed.

## Local scrutiny plan

**101.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to the Audit and Scrutiny Committee on 27 June 2017. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2017/18 although Education Scotland is carrying out two further inspection visits in June and September 2017. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

## Equalities

**102.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**103.** We reviewed the current (April 2017) Equalities Mainstreaming Report available on the Council website and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**104.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

## Equal pay

**105.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. Argyll and Bute Council implemented single status in February 2008 and reports that between 2004/05 and 2015/16 it has spent £4.7 million compensating workers who had been unfairly paid and settling equal pay claims.

**106.** Almost 27,000 equal pay claims across Scotland remain live and Argyll and Bute Council still has 134 live claims. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

# Part 5

## Value for money



### Main judgements

**We note that there are sound arrangements in place for financial and service planning, financial governance and resource management, subject to developments in workforce planning and a long-term financial strategy which are ongoing.**

**We reviewed the Council's progress in taking forward the recommendations in the Accounts Commission's Best Value report published in December 2015. We found that good progress had been made in addressing the recommendations, however, measures taken will require time to fully develop in order to demonstrate significant and lasting improvement.**

### Best Value

**107.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Argyll and Bute Council is planned for later in the five year programme.

**108.** This year's Best Value audit work focussed on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. Our conclusions on these areas are largely set out in the earlier sections of this report.

**109.** We also reviewed progress made by the Council in response to the Best Value report published in December, 2015. The Council received the report in January, 2016 and agreed the development of an Improvement and Action Plan to take forward its recommendations. The report identified a number of areas for further improvement. The current position is noted below in respect of the areas for action.

**110. Establishing a more open and transparent culture and style of working:** A bench-marking exercise with other similar councils was completed by the Council to compare the numbers of items taken in private, and to seek to reduce those to levels similar to peer councils. Reductions have been achieved, with quarterly monitoring and reporting on numbers of excluded items being considered by the Strategic Management Team.

**111.** The Council has carried out a review of Political Management Arrangements covering committee structures, area committees and audit and scrutiny arrangements. The main findings from this review were that:

Value for money is concerned with using resources effectively and continually improving services.

- the current “traditional” committee structure should be retained
- the current arrangement of four area committees would also be retained although we note that the number of meetings would be reduced.
- the functions of audit and scrutiny would be combined in a new Audit and Scrutiny Committee.

The various measures identified were approved by the new Council in May 2017.

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**Conclusion: The Council has been addressing the issue of lack of openness through its review of public/private reports, however, historically, the more serious challenges around lack of openness have originated from within the Council itself. Measures taken demonstrate a commitment to increased openness and transparency, and the political management arrangement options presented to the new Council should enable that culture of increased openness and transparency to be maintained.**

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**112. Standards: Continuing to seek a resolution to a number of relationship issues relating to elected members and others:** Training on standards and behaviour has been refreshed in line with new guidance produced with input from Standards Commissioner. A new programme of induction training and ongoing training material was put in place in time for the inception of the new Council.

**113.** Member and group discipline is now a standing item for discussion in regular meetings between the Chief Executive and group leaders. From discussion with the Chief Executive and senior councillors, there are indications that member discipline and behaviour standards have improved during 2017. However, the new Council is still in the early stages of its development and it will be important to ensure that appropriate avenues for constructive dialogue exist across the Council and the wider organisation.

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**Conclusion: There is evidence of improvement in this area, however, senior officers and members require to continue to work together to foster the highest standards of behaviour, mutual respect and professionalism.**

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**114. Taking a more innovative approach to dealing with its financial challenges:** A number of funds have been put in place by the Council to improve finances by supporting the growth of the local economy. These include the Tarbert and Lochgilphead Regeneration Fund, a Rural Resettlement Fund and an Inward Investment Fund which are all now in operation. Other similar projects are the Maritime Change Project, Oban as a University Town and the Single Investment Plan, which forms part of a potential Rural Growth Deal.

**115.** The former Transformation Working Group is now the Council’s Transformation Board with a focus on delivering change to improve service delivery, and to help balance the budget in 2018/19 and beyond. It will progress defined work streams as noted below;

- Transformation Packages - savings via Business Cost Reduction/Income Maximisation/Service Redesign/Self Funding
- Innovation Fund - funding for innovative projects identified by staff
- Asset Management and Investment Fund - investment to provide the Council with a commercial financial return

- Catering and Cleaning Innovation - service transformation options in catering and cleaning
- Digital Transformation - eleven projects to be taken forward in four tranches

**116.** An updated Budget Outlook report has been developed to provide more up to date information to members on the financial position. A 3 year Budgetary Outlook for the period 2017/18 -2019/20 was prepared using three different scenarios; Worst Case/Mid Range/Best Case and has been updated and presented to Policy and Resources Committee meetings since August 2017.

**117.** A process has been established to monitor savings emerging from the Council's Service Choices initiative and their impact on services. Progress is reported to the Policy and Resources Committee as part of the Financial Monitoring Reports pack. The first such report was presented August 2016 and at each meeting thereafter, with copies available on the Council's website. The latest update was that from 125 savings options, 96 have been delivered, 22 are on track to be delivered, 3 have still to be implemented, 1 has still to be developed, 3 have a potential shortfall and none are delayed.

**118.** The Council has recognised the need to develop a medium to long term financial strategy which demonstrates how it will respond to demands and pressures whilst continuing to meet its community's needs. This will be developed during 2017. The key to the strategy will be a set of fourteen underlying principles identified and approved by the Council in February 2017. One of these principles concerns the potential use of Arm's Length External Organisations (ALEOs), and the Council has formed a Leisure and Libraries Trust, which will commence operation from October 2017, and should provide full year savings of £0.541m from 2018/19 onwards.

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**Conclusion: The Council has introduced a range of initiatives to promote financial sustainability in the area and has developed a more innovative approach to dealing with its financial challenges. It is implementing alternative approaches which are intended to avoid reducing or withdrawing services, but instead seek to do things differently. It will, however, require to complete its development of a longer term financial strategy in order to consolidate any benefits from its various funding and savings initiatives.**

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**119. Community Engagement - Continuing to demonstrate clearly how it takes on board consultation feedback from its communities:** A review of the Council's relationships was carried out and considered by the Strategic Management Team. Its main conclusions were that perceptions of relationships with communities were often media led, but that work had to be done to improve communications with community groups, and especially with community councils. Community groups wanted more influence rather than control.

**120.** Specific new initiatives by the Council include the development of a Community Action Planning Toolkit and delivery of related training sessions, and a successful application to Scottish Government to run a Participatory Budgeting project for area committees, with five separate projects having been identified.

**121.** A Chief Officers and Senior Officers Working Group will now meet twice yearly to look at ways of progressing closer working with communities. Digital Transformation, Community Empowerment and Cultural issues have already been discussed in this forum.

**122.** The Council carried out a public consultation process during November 2016 –January 2017 in support of its budget planning process, and received more than 1700 responses. Respondents were asked about services and the role of the

Council, transforming services to make savings and raise income, and on working together with the Council. Findings were reported to the Council on 23 February 2017, and feedback was included on the Council's website on how views submitted had contributed to decisions made.

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**Conclusion: A number of initiatives are under way and at various stages of development. The Council requires to continue to develop practical mechanisms for embedding community engagement in its activities.**

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**123. Local Empowerment:** The Council has undertaken to prepare for and implement all relevant elements of the Community Empowerment (Scotland) Act 2015. Project leads have been identified to progress key component elements of the Act and the Council has reported all elements to be on track. A Community Empowerment Event, facilitated by the Council and community planning partners, was held in March 2017 to inform communities on the elements of the Act and how to become involved.

**124.** Council procedures are being developed to ensure consistency across the Council in its approach to community engagement, and enable effective and timely decisions to be made on community engagement issues.

**125.** The Council's website has a prominent Community Empowerment section with an overview of the various elements of the Act. It describes the legal status of the Act, the new rights for community bodies and the new duties on public authorities. The eleven topics covered by the Act are clearly summarised with links provided to further information or support.

**126.** There is a Community Empowerment Working Group comprising of Council officers and representatives of other community partners such as Fire and Rescue, Police, HIE, etc chaired by the Executive Director of Customer Services and meeting 6-8 weekly. In its update report to the Council in June 2017 it provided an overview of the elements of the Act which impact on Argyll and Bute Council and an update on actions taken to meet statutory requirements. This indicated that all elements of the Act currently in force had been implemented, and that work is ongoing to comply with other parts as and when they come into force.

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**Conclusion: The Council has in place, or is developing, the necessary mechanisms to comply with statutory Community Empowerment requirements. Information on the Act, and practical guidance on how individuals or community groups can exercise rights under the legislation, are available on the Council website. Measures taken to date appear to be in line with statutory deadlines and, where further legislation is awaited, preparatory measures are in place where possible.**

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**127. Exploring all options for providing training and development for all members in a way that is most accessible and has greatest impact:** A significant review was carried out on the new member induction programme, and on the content of seminars and training material available to members both online and in person.

**128.** Member training and development was identified in the 2015 BV Report as an area where improvement was required, and the Council has taken action to improve this area, with the development of a new members' induction programme ahead of the May 2017 elections being a significant step.

**129.** However, the response rate to the survey which sought feedback for developing the induction programme was somewhat low, with 21 out of a possible 36 members responding, and the BV Report in December 2015 noted that attendance at seminars varied greatly but on average less than half of all members



attended. Attendance at the induction sessions for the new council, held in May 2017, was very high, with very few members not attending.

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**Conclusion: Progress has been made in improving the induction programme and the available training support for members, however, we will continue to monitor developments and progress in this area.**

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**130.** The Controller of Audit will consider the results of the follow up work, and report to the Accounts Commission on the extent of improvements made.

### Following the public pound

**131.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**132.** The Council has successfully concluded the process of creating a charitable trust to operate all Council owned leisure and library services. The new organisation will begin operating from 1<sup>st</sup> October, 2017. It will be essential that the Council implements robust assurance and governance arrangements to deliver best value whilst ensuring an appropriate level of accountability for public money utilised in funding the operations of the new body.

### Performance management

**133.** The Council's Planning and Performance Management Framework (PPMF) had been in use since 2009. Detailed processes ensured that the Council's resources were targeted towards delivering the priorities set out in the Single Outcome Agreement/Local Outcome Implementation Plan, and the Council's Corporate Plan. It was based on review and scrutiny of individual service plans. Those service plans aimed to align service resources with service, corporate and national outcomes and were reviewed via service and departmental scorecards.

**134.** The PPMF operated effectively as a framework for monitoring and reporting performance, however, in our 2015/16 report we commented that the number of outcome indicators, together with the range of corporate and service strategies and plans, might work against visibility and clarity around performance management.

**135.** In 2016, the Performance Review and Scrutiny Committee and Chief Executive requested that a review of the PPMF be carried out to simplify the process, reduce duplication and provide improved scrutiny. In April 2017, a new Performance and Improvement Framework (PIF) was introduced and approved by the Council.

**136.** The first stage of this development has been to simplify service outcomes, reduce their number and create a smaller number of business outcomes. The new approach has been applied to service planning for 2017-20, and was approved by the Council in February 2017. Service plans will now extend to 3 years in duration rather than the previous single year. Updated scorecards will be developed to enable elected members to access and assess high level and strategic outcomes rather than low level activity measures. We will monitor developments in relation to PIF and assess its effectiveness in delivering its intended improvements as part of our 2017/18 audit.

### Overview of performance targets

**137.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.



**138.** The Performance Review and Scrutiny Committee received quarterly performance reports throughout the year. The latest such report was for Financial Quarter 3 to December 2016, and was presented to the Committee on 3rd March 2017. These reports monitor progress against the Council's key priorities. Based on the most recent report, Key Successes included;

- positive progress reported by the A&B Economic Forum,
- the launching of two new funds to help local businesses,
- the opening of a £2m investment Station Square, Oban and
- the completion of 47 new affordable homes between October-December.

**139.** Key Challenges were recognised as;

- review of political management arrangements and the impending local government elections
- challenges associated with recycling and waste treatment in the medium to longer term
- funding for infrastructure priorities
- continued work with the HSCP around joint working, joint processes and options for co location
- production of medium to longer term financial strategy.

### Statutory performance indicators (SPIs)

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

**141.** For 2016/17 two (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**142.** Overall we concluded that the Council's arrangements for publication are satisfactory.

### National performance audit reports

**143.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

**144.** The Council's internal audit section reviews Audit Scotland's national reports and passes them to the appropriate management recipient for a high level follow-up. The Chief Internal Auditor summarises this to the Audit Committee on a quarterly basis but this summary does not include all Audit Scotland's national reports of relevance to the Council, and the follow-up action is not clearly set out. Additionally, only some reports are presented to committees or other member groups for consideration. There is a risk therefore that some opportunities for improvement are not being identified. We raised this issue in our interim report to Audit Committee in June 2017, and management have undertaken to review the process to ensure that reports are presented to relevant committee and that follow up actions are monitored.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
11	<p><b>1. Impairment reviews</b></p> <p>From our review of Assets Under Construction we noted a number of assets where there had been no movement during 2016/17. One project, Campbeltown Old Quay, was recorded in accounts at £1.148m but had no movement for over 2 years. Whilst there were identifiable reasons for these long pauses in project activity, management should review these projects annually for potential impairment.</p> <p>There is a risk that capital projects subject to delays, or indefinite suspension, might suffer impairment in value as a result of such delays.</p>	<p>The Council should carry out impairment reviews for all significant assets including Assets under Construction.</p>	<p>Impairment reviews including Assets under Construction will be carried out each year.</p> <p>Peter Cupples, Finance Manager Corporate Support.</p> <p>15 April 2018.</p>
11	<p><b>2. Holiday pay accrual</b></p> <p>The percentage used to incorporate Other Staff into the calculation was based on a sample of employees from 2010/11.</p> <p>There is a risk that over time the relevance and validity of the sample data will reduce resulting in misstatement of the amount accrued.</p>	<p>Sample data used to calculate the accrual for holiday pay should be reviewed regularly to confirm its continued suitability.</p>	<p>The Holiday Pay Accrual will be reviewed at year end and will be updated as required.</p> <p>Peter Cupples</p> <p>15 May 2018</p>
17	<p><b>3. National Fraud Initiative</b></p> <p>Regular updates on the NFI process are provided as a standing agenda item to each Audit Committee meeting, however, very little</p>	<p>Additional detail on progress with processing NFI matches should be provided to Audit and Scrutiny Committee as a standing agenda item during the course of the NFI</p>	<p>Additional information will be provided as part of the regular updates to the Audit and Scrutiny Committee.</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

detail is provided, with no regular update on numbers of matches, progress on follow up, or outcomes until the conclusion of the exercise.

There is a risk that Audit and Scrutiny Committee are not aware of delays in processing of NFI matches.

process.

Chief Internal Auditor  
31 December 2017

**21**

**4. Workforce planning**

Underlying workforce planning to support the Council's People Strategy is currently under development.

There is a risk that, without the necessary planning in place, the Council may not have the required capacity and skills to effectively deliver its services in the future.

The Council should continue to progress their developments in workforce planning as a key priority.

Strategic Workforce Plan to be prepared and agreed at Policy and Resources Committee in December 2017.

Jane Fowler, Head of Improvement and HR  
31 December 2017

# Appendix 2

## Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure has been accounted for in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>No significant issue were noted in our testing of accruals and prepayments.</p> <p>Income and expenditure accounted for in correct financial year.</p> <p>No significant transactions outside the normal course of Council business were identified.</p> <p>Our conclusion is that there is no evidence of management override of controls at the Council.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams in addition to Scottish Government funding are significant. Argyll and Bute Council receives significant income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p> <p>Practice Note 10 expands the ISA240 assumption on fraud over income to aspects of expenditure. The risk of fraud over expenditure also applies to the Council due to the variety and extent of its expenditure in</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed testing of revenue and expenditure transactions, including cut-off testing, focusing on the areas of greatest risk.</p>	<p>We obtained satisfactory explanations for any significant increases or decreases in income or expenditure.</p> <p>Satisfactory results obtained from our testing of transactions.</p>

Audit risk	Assurance procedure	Results and conclusions
delivering services.		
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of:</p> <ul style="list-style-type: none"> <li>• non current assets (including heritage assets)</li> <li>• pension liabilities</li> <li>• provisions (including for any equal pay claims).</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuers and actuaries.</p> <p>Review of accounting estimates and pension disclosures.</p> <p>Focused substantive testing of key areas including data Argyll &amp; Bute Council provides to its actuaries.</p>	<p>We assessed the reliability of these experts and reviewed their work. No issues were noted.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.</p> <p>Pension disclosures agreed in full to information from actuaries, or to financial records where applicable.</p> <p>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p><b>4 Health and Social Care Integration</b></p> <p>Argyll &amp; Bute Council and NHS Highland transferred full responsibility for delegated health and social care services to the Integration Joint Board (IJB) from 1 April 2016. As a material joint venture, the Council will need to include the financial results of the IJB in the group financial statements for 2016/17. There is an increased risk of misstatement as this is a new area for disclosure in the Council's financial statements. There is a risk that:</p> <ul style="list-style-type: none"> <li>• transactions relating to the IJB are not correctly classified by the Council</li> <li>• balances between the Council and its IJB partners are not agreed in time for preparation of the financial statements</li> </ul> <p>overspends occur if scrutiny of partnership budgets is not effective. Any overspends by the IJB can directly impact the Council's budget.</p>	<p>On-going discussion with officers on accounting for the IJB prior to receiving the Council's unaudited financial statements.</p> <p>Obtain Assurances from external auditors of NHS Highland and of the IJB.</p> <p>Sample test income and expenditure relating to health and social care services provided to the IJB.</p> <p>Review the arrangements in place to confirm balances between the Council and its IJB partners.</p> <p>Confirm whether any overspends or underspends relating to the Council are accounted for in accordance with the integration scheme.</p>	<p>IJB financial position was monitored throughout the audit and the treatment for year end results considered in line with accounting guidelines.</p> <p>IJB figures were accurately incorporated into the consolidated accounts. <b>[TBC]</b></p> <p>Confirmation of year end balances was received from each party of the IJB.</p> <p>Sample testing of income and expenditure transactions confirmed they were accurately recorded as IJB or non-IJB.</p> <p>The Council's share of the results of the IJB has been appropriately consolidated into the group accounts. <b>[TBC]</b></p> <p>Our conclusion is that transactions and balances of the IJB were correctly classified within the Council's ledger. Balances between the Council and its partners were agreed.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>5 Financial sustainability</b></p> <p>Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services,</p>	<p>Review of the Council's budget setting arrangements and its approach to medium and long-term financial planning, including any scenario</p>	<p>The Council has still to develop its approach to medium and long term financial planning.</p> <p>Budget monitoring reporting to members and budget managers</p>

Audit risk	Assurance procedure	Results and conclusions
<p>increasing non discretionary costs, increasing demand for services and the uncertainty around the newly created IJBs.</p> <p>On 23 February 2017, the Council agreed a balanced budget for 2017/18 with a surplus of £193k. Indicative budgets forecast a funding gap of £3.3 million for 2018/19 rising to £9.3 million for 2019/20. The approach to meeting the required savings has yet to be developed. This creates a financial sustainability risk for the Council as the level of necessary budget savings may adversely affect the level and quality of service provision. The Council has recognised this risk as part of its risk management process.</p>	<p>planning</p> <p>On-going review of budget monitoring reports and other reports presented to members.</p> <p>On-going review of the Council's financial position and its progress in achieving its planned savings.</p>	<p>is of a high standard, and enables corrective action to be taken timeously should overspends develop during the year.</p> <p>Savings plans to date have been delivered successfully, and plans for future savings are under development..</p>
<p><b>6 Financial management - budget setting process</b></p> <p>Audit Scotland's report on 2015/16 budget setting process identified 3 areas for improvement:</p> <ul style="list-style-type: none"> <li>Members should consider circulating proposals for significant changes to the budgeting pack in advance of the Council meeting</li> <li>Future budget proposals should include a clear breakdown of how a balanced budget is made up</li> <li>The process for recording officer advice and Council decisions on significant items such as setting the budget should be reviewed to ensure minutes are comprehensive and transparent.</li> </ul> <p>If these actions are not implemented, there is a risk that the scrutiny of the budget setting process is ineffective.</p>	<p>Consideration of internal audit's review of budgeting.</p> <p>Attendance at the budget setting Council meeting.</p> <p>Follow up of progress on improvement actions identified.</p>	<p>Internal audit provided reasonable assurance for this area. Its review of budget monitoring reports, provided to budget holders on a regular basis by Strategic Finance, found that these were accurate.</p> <p>Meeting attended by audit team members.</p> <p>Improvement actions addressed by Council and dealt with satisfactorily.</p>
<p><b>7 Financial management - financial reporting system</b></p> <p>There is a requirement to replace the main financial reporting system (Discoverer) by June 2017. There is a risk</p>	<p>On-going review of progress.</p>	<p>Continued support for the current system has been secured until June 2018, to enable market testing for a replacement to be carried out.</p> <p>We will review progress as part of</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>that this has an adverse impact on the Council's financial reporting at an important stage of accounts preparation.</p>		<p>our 2017/18 audit.</p>
<p><b>8 Best value follow-up</b></p> <p>The Accounts Commission's Best Value report, published in December 2015, identified several areas for improvement for the Council, including:</p> <ul style="list-style-type: none"> <li>• Operating in a more open and transparent way</li> <li>• Better involving communities in decision making and scrutiny</li> <li>• Taking a more innovative approach to dealing with its financial challenges</li> <li>• Continuing to seek a resolution to a number of relationship issues relating to elected members and others.</li> </ul> <p>There is a risk that the measures identified in the resulting improvement plan will not effectively address the issues raised in the report.</p>	<p>Review of the Council's leadership, governance and scrutiny processes, including the role of area committees, as part of our on-going Best Value work.</p> <p>Review of progress made against the Accounts Commission's recommendations in the 2015 Best Value report.</p> <p>Review of induction and training arrangements in place for new members.</p>	<p>Leadership, governance and scrutiny processes reviewed and found to be satisfactory. Role of area committees remained important, especially in view of initiatives planned around community engagement and empowerment.</p> <p>Good progress made against recommendations.</p> <p>New induction and training arrangements for members considered to be a significant improvement.</p>
<p><b>9 Workforce planning</b></p> <p>A People Strategy for 2016-2020 was approved by the Council in September 2016. However, the strategy does not contain any detailed information regarding, for example, future projections for staff numbers.</p> <p>There is a risk that the Council does not have the required capacity and skills to deliver effectively its services in the future.</p>	<p>On-going review of progress with the preparation of a workforce plan.</p>	<p>Development of workforce planning is ongoing and will be reviewed further as part of our 2017/18 audit work.</p>



# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Local government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads – a follow up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

[Local government in Scotland: Performance and Challenges 2017](#) – March 2017



# Argyll and Bute Council

## 2016/17 Annual Audit Report DRAFT

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