



Argyll and Bute Council

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

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

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

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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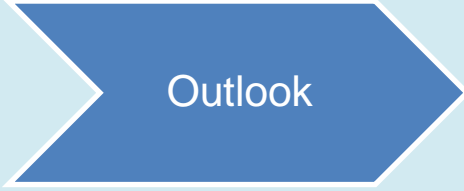
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Contents

Key messages	4	Best Value.....	36
Introduction	6	Appendix I – Significant audit risks	41
Audit of the 2014/15 financial statements.....	7	Appendix II.....	45
Financial management and sustainability	16	Appendix III.....	46
Governance and transparency.....	24	Appendix IV	47

Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements• Unqualified auditor's reports on the 10 charitable trusts administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management has been effective in 2014/15. The council reported an underspend against budget of £2.072 million• Total usable reserves have increased to £50.478 million• Revised financial forecasts estimate required savings of between £21.7 million and £26.0 million over the next five years.• Members have agreed to move forward with overall savings targets of around £9 million in both 2016/17 and 2017/18 to meet the estimated budget gap for these two years. Detailed proposals will be presented in October 2015 to allow recommendations to be made to Council• The council estimate that management/operational savings already identified and the policy option savings progressing through the service choices process, will deliver proposals for savings in excess of target.

 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Governance arrangements are generally sound but some improvements are in progress relating to asset management and disposals• Key financial controls operated effectively during 2014/15• Our review of the council's commissioning process on behalf of the local ADP identified a number of significant findings and recommendations which are being actioned• The council has an effective internal audit function and sound anti-fraud arrangements.
 <p>Best Value</p>	<ul style="list-style-type: none">• Best Value audit work is ongoing at the council to consider progress in the areas highlighted by the Accounts Commission in its July 2014 findings• The Controller of Audit is due to report progress against previous findings to the Accounts Commission by the end of 2015• The council is generally meeting its requirement to report publicly on its performance.
 <p>Outlook</p>	<ul style="list-style-type: none">• Delivering services within constrained budgets will require robust financial planning and budget monitoring arrangements• The council's regular review of performance, and implementing the corporate improvement strategy will be critical to the council continuing to achieve its key priorities and achieving best value• Any areas for improvement identified in the Best Value audit, to be completed by the end of 2015, will provide a focus for the council.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Argyll and Bute Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Argyll and Bute Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Argyll and Bute Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Argyll and Bute Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by Argyll and Bute Council and issued an unqualified independent auditor's report for each of the relevant trusts.
Group accounts	<ul style="list-style-type: none"> Argyll and Bute Council has accounted for the financial results of three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £6.777 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This is currently being reviewed and the certified return will be submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 25 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 13 March 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the

audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Argyll and Bute Council we set our planning materiality for 2014/15 at £3.037 million (1% of gross expenditure). We report all misstatements greater than £30,000. Performance materiality

was calculated at £1.822 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels. Materiality was revised to £3.109 million (1% of gross expenditure) and performance materiality revised to £1.865 million.

Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our threshold of £30,000, have either been amended in the financial statements or recorded as an unadjusted error.
19. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements in most instances. The effect of the monetary adjustments is to reduce net assets on the balance sheet by £0.053 million.
20. Unadjusted errors, if corrected, in the financial statements would have the cumulative effect of reducing the council's net assets by

£0.046 million. The net impact on the council's funding position would also be a reduction of £0.046 million

Significant findings from the audit

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

Significant findings from the audit

Issue	Resolution
<p>Equal Pay</p> <p>The ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time.</p> <p>The council settled a number of equal pay claims during 2014-15. However, there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the council. Based on advice from the legal section the year end provision for equal pay claims is £0.077 million.</p>	<p>The potential equal pay provision will be reviewed on an annual basis.</p>

Issue	Resolution
<p>Landfill sites</p> <p>The council owns three active island landfill sites. As a result it has responsibilities regarding the restoration and aftercare costs of the sites. The three sites were re-valued as at 31 March 2015 by the District Valuer. They were originally included within non current assets at their asset value of £1.644 million less the present value of estimated future expenditure for restoration and after care of £1.477 million, resulting in a net asset of £0.167 million.</p> <p>This accounting treatment was not in accordance with International Accounting Standard (IAS) 37 Provisions, contingent liabilities and contingent assets which requires recognition of restoration and aftercare costs as a provision in the Balance Sheet.</p>	<p>The council has now revised the accounts to comply with accounting standards. This has had no impact on the total net assets position.</p>
<p>Heritage Assets</p> <p>Heritage Assets include two art collections valued in total at £1.140 million. The Argyll Collection (£0.649 million) was last valued in February 2010 however the other collection, held at various libraries and at the Campbeltown Museum (£0.491 million), was last valued in March 2004. The council also own museum exhibits (insured for £0.520 million) which are not included within Heritage Assets as no detailed inventory exists.</p> <p>Our 2013/14 Report recorded that progress was to be made in 2014/15 towards cataloguing and valuing all museum artefacts by 31 March 2015. However, there was no change to this approach for 2014/15</p>	<p>The council’s museum and libraries art collection was revalued in April 2015. This will be reflected in the 2015/16 accounts. The council is to consider cataloguing the assets at the Campbeltown museum and the Argyll collection during 2015/16.</p>

Issue	Resolution
<p>International Accounting Standard (IAS) 19 pension liability: The net pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.</p> <p>The council's balance sheet position has fallen from a £174.825 million net asset position at 31 March 2014 to a £160.957 million net asset position at 31 March 2015. This is predominantly due to the net pension liability which has increased by £26.401 million (or 22.3%) in the year from £118.337 million in 2013/14 to £144.738 million in 2014/15. The 2014/15 IAS19 figures are based on a roll forward from the March 2014 fund valuation (the 2013/14 figures were based on the March 2011 fund valuation). This has led to a considerable movement between the years due to changes in assumptions. In addition, the actuaries have reported that falling real bond yields have led to a significant rise in the deficit. This has been partially offset by a better than expected return on assets.</p>	<p>Assurance is obtained from the triennial valuations of the pension fund carried out Hymans Robertson LLP, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.</p>

Issue	Resolution
<p>Annual Governance Statement</p> <p>Our audit work identified a number of areas and issues for further development that were not included in the 2014/15 statement. These included reference to health and social care integration progress, implementation of the Community Empowerment Bill and FOI statistics.</p> <p>In addition, the annual governance statement is required to be approved by the Council or committee whose remit includes audit or governance. At its meeting of 19 June 2015, the Audit Committee noted but did not approve the draft Annual Governance Statement for 2014/15.</p>	<p>A revised Annual Governance Statement was prepared incorporating all agreed amendments and approved by the Performance Review and Scrutiny Committee in August 2015.</p>
<p>Management commentary</p> <p>Our audit work identified a number of areas not included in the management commentary required by the statutory guidance outlined in Local Government Finance Circular 5/2005. These include health and social care integration challenges, an analysis using financial and other key performance indicators and a description of the council's strategy and business model.</p>	<p>A revised Management Commentary was prepared to reflect more of the guidance. Further improvements are to be built into the 2015/16 Commentary.</p>

Issue	Resolution
<p>Asset Register</p> <p>Capital disposals during the year included the site of the former Dunbeg Village Hall which was sold for £60,000. This asset however has never been included on the Fixed Asset Register. Senior finance officers were asked to provide assurance that all council assets are listed on the Fixed Asset Register.</p>	<p>Finance officers explained that on-going reconciliations of the Fixed Asset Register to Estates records are undertaken. Based on this control officers are of the view that the asset registers are not materially misstated. Audit testing of a sample of fixed assets supports this view</p>
<p>Community Charge debt</p> <p>The Community Charge Debt (Scotland) Act 2015 extinguished outstanding community charge debt from 1 February 2015. However Note 21 to the accounts discloses £7.549 million community charge debtors as at 31 March 2015, fully provided for by way of a 100% bad debt provision. Officers have explained that the debt has not yet been approved for write-off and therefore requires to be included in the financial statements.</p>	<p>The council has now revised the accounts to comply with the Act. This has had no impact on the total net assets position.</p>
<p>Remuneration Report</p> <p>The Acting Head of Strategic Finance and section 95 officer, was not disclosed in the Remuneration Report. As this is a statutory post (section 95 officer), his remuneration should be disclosed.</p>	<p>The Acting Head of Strategic Finance is not an employee of the council. To comply with the requirements of the guidance, the council has now provided a note to the Remuneration Report detailing payments made to the agency the Council contracted with for the supply of his services.</p>

Future accounting and auditing developments

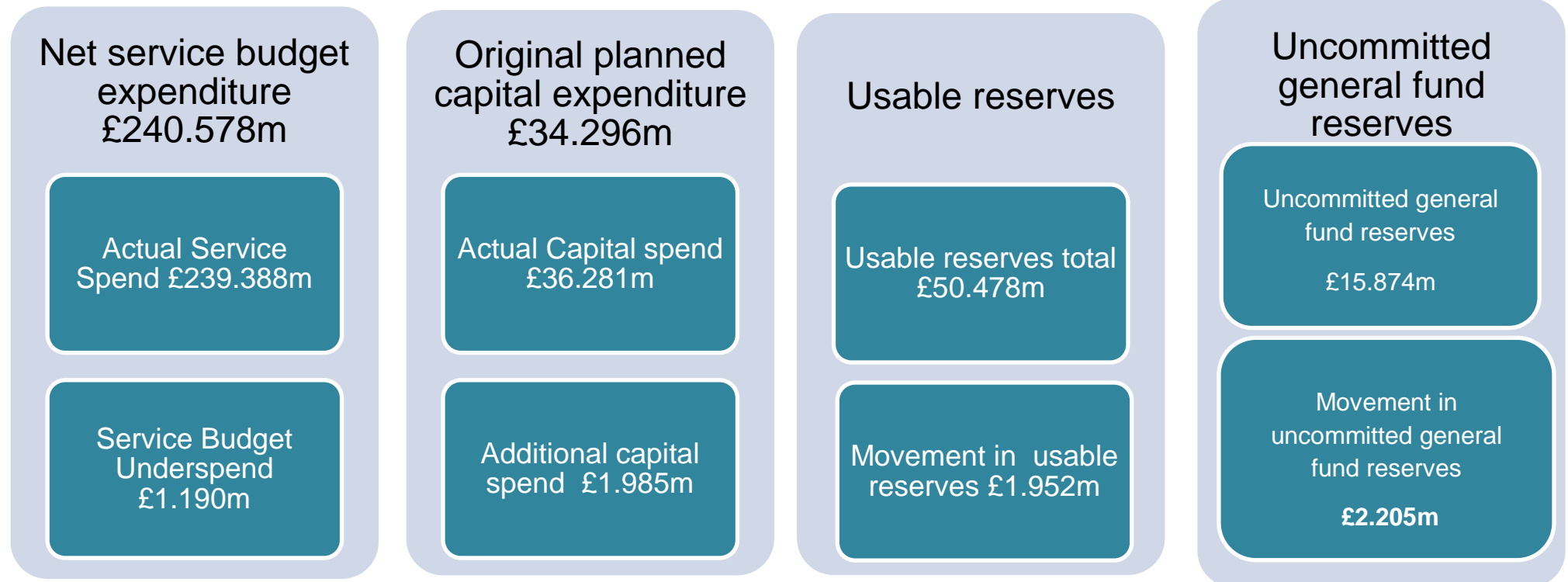
Revisions to the Code of Practice

23. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
24. **IFRS 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. In addition, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the

necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements..

25. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.
26. **Health and Social Care Integration:** From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements.

Financial management and sustainability



Financial management

27. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
28. The Council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

29. Overall the council reported in its management commentary, an underspend against budget of £2.072m. This is made up of service budget underspends of £1.190 million (£1.021 million for services less £2.211million on central costs) and additional income collected of £0.882 million.
30. Total departmental controllable expenditure reported an overspend of £1.021 million. Development and Infrastructure Services was overspent by £1.889 million, mainly in relation to winter maintenance, coastal protection costs and emergency road works. Community Services was overspent by £0.134 million. These overspends were offset by an underspend in Customer Services of £0.991 million, mainly due to procurement savings in school and public transport and the overrecovery of vacancy savings
31. Central/non departmental costs were underspent by £2.211 million, the main reasons being:
 - Severance and unfunded pension costs were overspent by £0.703 million
 - Loan charges £0.699 million under budget due to income from investments
 - An underspend on utility costs of £1.237 million due to efficiencies being made in terms of billing and usage and the reversal of previously held provisions that are no longer required
 - Reduction in the Equal Pay provision of £0.218 million
32. Council Tax collections exceeded budget by £0.882 million, mainly in relation to increased collections on older years of council tax.

Accounting deficit

33. The Statement of Comprehensive Income and Expenditure, based on International Financial Reporting Standards accounting requirements records an accounting deficit of £13.868 million. This represents a surplus on the provision of services of £4.581 million offset by a deficit in other comprehensive income and expenditure of £18.449 million. The General Fund balance increased by £2.026 million.

Financial management arrangements

34. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
35. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
36. The Head of Strategic Finance left the council in February 2015. The post has been filled on an interim basis and a permanent appointment has recently been made.
37. We reviewed the council's financial regulations, which are revised periodically, and concluded that they are comprehensive

and current. The council's financial regulations are available on the council's website.

38. Financial monitoring reports (both revenue and capital) are submitted to the Policy and Resources Committee (PRC) bi-monthly. They are included within a comprehensive financial reports monitoring pack. The revenue budget monitoring report provides corporate and departmental information with comparisons on a forecast outturn and year to date basis.

Conclusion on financial management

39. The council's financial management arrangements for 2014/15 have been effective. The council has a good history of keeping expenditure within budget. Budgets are closely monitored with progress against budget being regularly reported.

Financial sustainability

40. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
41. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for

- investment in services and assets is effective.

Effective long-term financial planning, asset management (see para 76) and workforce planning are crucial to sustainability.

Reserves

42. As outlined in exhibit 1, the overall level of usable reserves held by the council increased by £1.952 million compared to the previous year and totalled £50.478 million.

Exhibit 1: Usable reserves

Description	31	31	31 March
	March	March	2015
	2013	2014	£ million
	£ million	£ million	
General fund	46.138	44.041	46.067
Capital Funds	3.316	3.460	3.742
Repair and renewal fund	0.850	1.025	0.669
Total usable reserves	50.304	48.526	50.478

Source: Argyll and Bute Council financial statements

43. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

44. Planned commitments from the general fund balance amounted to £30.193 million and include the Strategic Housing Fund, a revenue contribution to Dunoon and Campbeltown schools, investment in affordable housing and unspent budget carried forward. In June 2015 the Council agreed to earmark a balance of £12.269 million to be directed towards the delivery of the Single Outcome Agreement in accordance with earlier decisions.
45. The remaining unallocated General Fund balance of £3.605 million is being held as a contingency in line with the Council's reserves policy.

Financial planning

46. The Council set its 2015/16 budget in February 2014 as part of a two year budget. The 2015/16 budget was set at £244.385 million and assumes savings of £1.822 million.
47. In our 2013/14 Annual Report we reported that the council estimated it will need to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period.
48. In December 2014 the council set out a revised forecast of its financial position. Based on a narrower range of worst and best case scenarios the funding gap is estimated to be between £28.1 million and £37.5 million over five years. Averaged over the five

years 2016/17 to 2020/21 this equates to an annual gap in the range £5.5- £7.5 million.

49. The revised forecasts reflect removal of cost and demand pressures. In a report to a special Policy and Resources Committee (PRC) meeting of 22 June 2015, the Interim Head of Strategic Finance records that if any new cost and demand pressures are identified, a process will be put in place for these to be considered, with regard to their priority, alongside other savings options. In addition the earmarked balance of £12.269 million to be directed towards the delivery of the Single Outcome Agreement is available to meet these pressures. The members have noted this different approach.
50. Senior finance officers have confirmed that the budget is now prepared from a zero base and that the Strategic Management Team will be engaged in the first instance in reviewing service pressures. The extent to which budgetary plans need review for any changes to the base position will flow from that review.
51. The report to the special PRC meeting in June also indicated that the current budget gap is estimated to be between £21.7 million and £26.0 million, requiring savings of between £7.9 million and £8.8 million in 2016/17 and between £7.9 million and £9.6 million in 2017/18.

Recommendation No 1

52. The budgetary outlook is continually monitored and updated as new information becomes available. There have been no changes to the budget outlook since the update in June 2015.
53. Scottish Government funding. 2016/17 budget proposals will not be produced until after the UK government's spending review in late November. This delay will give the council less time to produce its budget for next year. The Scottish government is anticipating a reduction in the block grant available to fund devolved services like health, education, local government, and law and order.

Service Choices

54. In December 2014, as part of the "Planning for our Future" budget strategy to deliver the SOA, the Policy and Resources Committee agreed a 'Service Choices' process. This plans for estimated funding reductions by aligning the available budget with Council priorities. The overall approach and timetable was agreed in April 2015.
55. A Project Board was established to drive forward the process. It consists of 12 councillors (8 from the administration and 4 from the opposition) and 2 trade union representatives. The Chair of the project board is the Leader of the Council. The project board has met several times to date.
56. Based on the current budget outlook, the council estimate that the management/operational savings already identified and the

policy option savings will deliver savings options in excess of the target.

57. Detailed proposals are to be presented in October 2015 to allow recommendations to be made to the council in respect of savings proposals to proceed to the consultation stage. Based on the most recent budgetary outlook, members have agreed to move forward with overall savings targets of around £9 million in both 2016/17 and 2017/18.

Capital programme 2014/15

58. The Council approved its capital programme for 2014/15 in February 2014. Actual expenditure for the full year was £36.281 million compared to a budget of £34.296 million, an overspend for the year of £1.985 million (5.8%). However, when additional capital income received in respect of roads reconstruction and transportation projects of £1.804 million and prudential borrowing in respect of fleet management and the Helensburgh depot of £2.348 million are taken into account there was slippage of £2.167 million (5.6%).
59. Major capital projects include CHORD, Helensburgh office rationalisation, Kintyre renewables hub and roads reconstruction. A number of small variances contributed to the overall overspend.

Workforce Management

60. Redundancy costs have been incurred by the council over the last few years as a result of service reviews and other savings agreed as part of the budget process. Redundancy costs accounted for in 2014/15 totalled £0.748 million relating to 24 employees.
61. As the council continues in its change programme to deliver the Single Outcome Agreement, Heads of Service are currently in the process of working on Stage 3 options development/business planning for Service Choices. The proposals will inevitably lead to a reduction in the number of employees the council is required to employ.
62. In August 2015 the PRC agreed that management proceed to invite expressions of interest in voluntary redundancy from employees. They agreed to exclude teachers and SSSC registered Social Care staff from the process. This is an important element of managing the reduction in council posts as a result of Service Choices as effectively as possible in line with the council's Redundancy Policy, which seeks to achieve post reductions through voluntary means as far as possible.

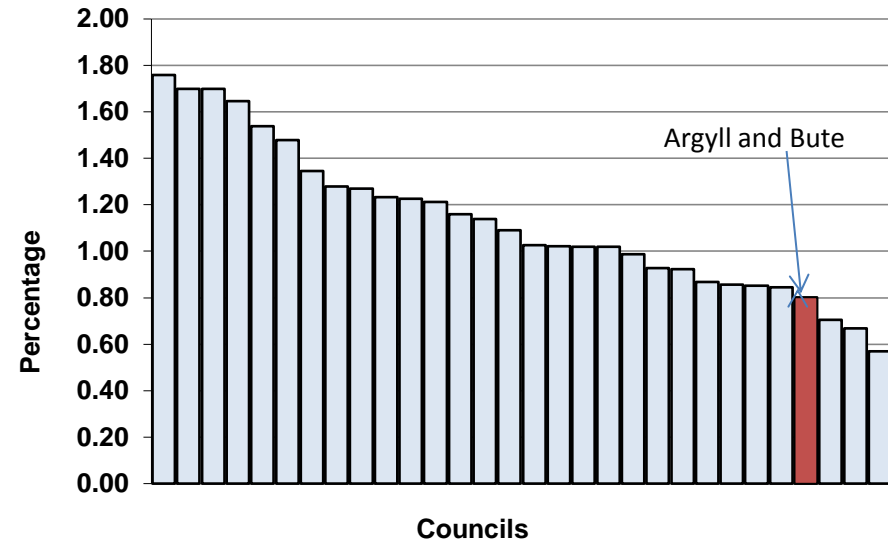
Treasury Management

63. At 31 March 2015 external borrowing stood at £173.378 million, an increase of £12.197 million on the 2014 borrowing level of £161.181 million. During the year the council completed £20.547 million of new external borrowing. This was used to finance

capital expenditure. The council also repaid loans of £8.350 million. Interest payable and similar charges was £18.116 million, similar to last year's figure of £18.107 million.

- 64. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 2 shows long term borrowing as at 31 March 2015 as a proportion of net revenue stream for the year for all mainland councils in Scotland. This indicates that the council's borrowing levels are low compared with the majority of other councils.

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



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

Pension liability

- 65. The net assets on the council's balance sheet have decreased from £174.825 million in 2013/14 to £160.957 million in 2014/15, a reduction of £13.815 million. The principal reason for this decrease is the £26.401 million increase in the pension liability from £118.337 million to £144.738 million. This is also reflected in the balance sheet for the group.

66. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation the Strathclyde Pension Fund was 94.3% funded and had assets of £13.949 billion. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.
70. In common with many other councils, Argyll and Bute Council is now reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, the Council faces tough decisions to balance its budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

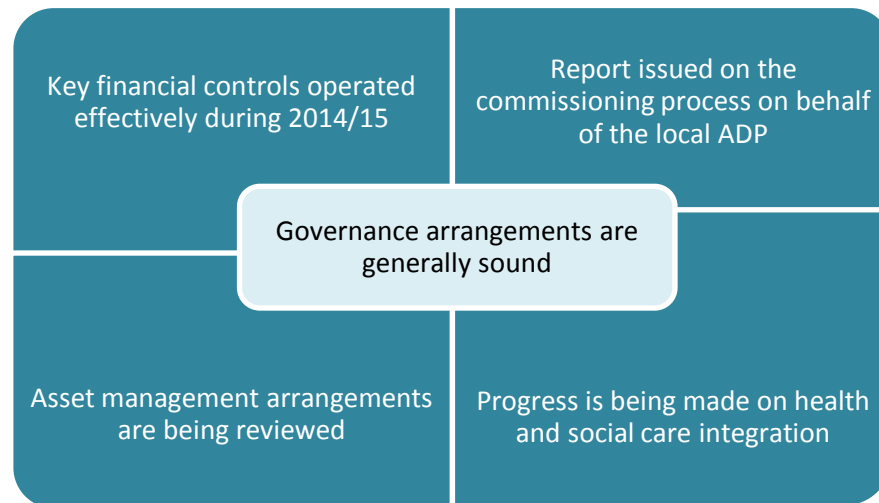
Conclusion on financial sustainability

67. The council has managed expenditure within the annual budget in 2014/15 and 2013/14.
68. The current funding gap is estimated to be between £21.7 million and £26.0 million over the period 2016/17 to 2020/21. A 'Service Choices' process has been established to align the available budget with Council priorities.

Outlook

69. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

Governance and transparency



Corporate governance

71. 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.
72. The effectiveness of governance arrangements is a key feature of the ongoing Best Value audit. This is discussed in the next section of this report.

Local code of corporate governance

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

Internal control

74. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
75. We reported our findings to the Audit Committee in June 2015. Our overall conclusion a range of specific issues was that key controls within the council's main financial systems were operating satisfactorily. However, our findings did include a number of recommendations to enhance the control system in operation and an action plan has been agreed with management to address these. In addition a number of specific governance issues are reported below.

Asset Management

76. At paragraph 22 we reported discrepancies between the Fixed Asset Register and other council records.

77. In December 2014 Internal Audit reported a 'Land and Asset Review' to the Audit Committee. This gave limited assurance and highlighted a number of issues in relation to asset disposals procedures. In particular, a review of the information held by Strategic Finance in the Asset register highlighted discrepancies in respect of 3 properties which were no longer assets of the council. Internal audit recommended that procedures for disposal of council assets should be reviewed, with a target completion date of 31 March 2015.
78. At the December 2014 Audit Committee meeting, it was minuted that an independent "health check" on all procedures and processes relating to the review of council assets and their marketing was to be carried out.
79. Work has recently been completed by CIPFA in relation to delivery of Estates services to the council. We will consider, the council's response to this work as part of our 2015/16 audit.
80. In the meantime, property disposal procedures were revised in March 2015. The disposal of property is co-ordinated by the Council's Estates Service who have to demonstrate compliance with the revised disposal procedures. This is subject to monitoring at Head of Service and Executive Director level.
81. In April 2015, we invited the council to complete a Best Value toolkit to assess its own asset management processes. The council identified that current practices are generally effective. Discussions are ongoing with the council about how further improvements could be made. This will be reported as part of our 2015/16 audit.
82. The next section of this report covers some specific asset disposals relation to Castle Toward and Rockfield Primary School.

Sale of Castle Toward

Proposed community buy out

83. The South Cowal Community Development Company (SCCDC) submitted a community buy out proposal for Castle Toward. As well as community benefits, the proposal included payment of the £750,000 for the property .
84. In March 2014 the Scottish Government appointed District Valuer reported that the market value of the property was £1.75 million.
85. At its meeting of 18 December 2014, the Policy and Resources Committee (PRC) agreed to dispose of the Castle Toward Estate to the SCCDC at the full value of £1.75 million, with £1 million in respect of the purchase price being provided to SCCDC on a commercial loan basis subject to an initial three year period of deferment of repayments in recognition of their financial position. This loan was to be subject to a range of conditions. The Right to Buy period was extended until 31 January 2015 and then again to 13 February 2015.
86. At a special meeting on 12 February 2015, the Council withdrew the delegation to officers in regard to any further negotiations

with SCCDC, withdrew the delegation for any further extension in the Right to Buy deadline and reaffirmed the delegation to the Executive Directors of Community and Customer Services to market the property. Minutes of the meeting record that, in the extension period there had been no material change of position by SCCDC in negotiations with officers. It was also stated that SCCDC would appear to have been unable to develop their business plan to allow them to fund the purchase price set by the District Valuer and as accepted by the Council.

87. At that meeting the members were provided with external advice that reported that an alternative valuation report received from Savills, on behalf of SCCDC, did not alter their view as to the open market value of the estate. They specifically cautioned members against placing any reliance on the valuation by Savills.
88. It is our view that it was for the Council to decide on whether to accept or reject the purchase proposal for Castle Toward from the SCCDC. In making this decision it is appropriate that the elected members considered a range of factors including the details of the proposal, the District Valuer's valuation of the property, the appropriateness of alternative valuations and the wider financial implications for the council of the proposal.
89. The Land Reform (Scotland) Act 2003 requires that during a community right to buy, the council is prohibited by Section 40 (1) from taking any action to transfer the land or taking any action with a view to transfer the land the question. From information and correspondence provided to us, we have found no evidence

of any such action by the council prior to the conclusion of the right to buy process.

Current proposal

90. Baird Lumsden was appointed by the council to market Castle Toward. Despite a number of enquiries, only one offer was made by the closing date of 10 June 2015.
91. At the Council meeting of 25 June 2015, members were advised that there was an urgent item relating to Castle Toward. Minutes of the meeting record that the Provost ruled that he had accepted an urgent item in relation to Castle Toward by reason of the need for the Executive Director of Customer Services to provide a decision on the content of the report by 26 June 2015. He advised that the item was commercially confidential and that this had been his reason for not releasing any information earlier in the meeting.
92. The council report relating to this item was then distributed to members prior to consideration of the item. There are no details in the standing orders for meetings which state when urgent reports are required to be provided to members.
93. Members were given a short period to read the report before they discussed it. Members then moved a motion to accept the bid. An amendment was moved to take longer to consider the offer and the conditions. The motion to accept the bid was carried by 22 votes to 5. Based on this vote, a majority of members were

satisfied that they had sufficient time and information to consider the bid.

94. Details of the economic and social benefits of the proposed development (£28 million capital investment and 151 FTE jobs) are contained in the council report.
95. The council report states that the total sum offered was £1.510 million, comprising £1.435 million for heritable property, split £1.125 million on the date of entry and an additional £0.310 million after receipt of all necessary and detailed consents for the implementation of the proposed purchasers' concept master plan (including planning permission and building warrants) and £0.075 million for moveable property. The council report details a risk that "if the purchasers do not obtain all the required consents, the Council would not be entitled to receive the sum of £310,000." Periodic updates should be provided to members on when this sum is likely to be received.

Recommendation 2

Performance Review and Scrutiny Committee review of Council Decision

96. At the Performance Review and Scrutiny Committee (PRS) Committee meeting of 26 February 2015, it was agreed to accept the request by two members to consider the Council decision to reject the offer of purchase of the Castle Toward Estate by the SCCDC.
97. At its meeting of 27 August 2015, the PRS Committee considered a report written by the Chair and agreed to formalise a document bringing together the findings and recommendations of the committee in November. The document will be presented for approval to the PRS Committee and then presented to the Council.
98. We will consider this report and will continue to monitor any developments in this area. However it remains our view that, the Council took reasonable decisions regarding the community buy out proposals.

Sale of Rockfield Primary School

99. Last year we reported that the September Oban, Lorn and the Isles Area Committee (OLIAC) agreed that Oban Communities Trust (OCT) was the preferred bidder for the property. This was conditional upon the Trust providing a fully costed business plan, demonstrating the financial viability of the community project prior to the sale concluding.
100. A report was put to the next meeting of the OLIAC on 11 February 2015 requesting a decision on the offer of £1,000 submitted by the OCT. The report provided commentary by Economic Development, Strategic Finance, Development Management and Road Services on the business plan submitted by OCT in December 2014. The report concludes inter alia that; "None of the Services have highlighted any particular issues although Strategic Finance does advise that information on the

rationale behind certain assumptions would be required for a clearer picture and that there is insufficient information to be able to comment on the finances behind the renovation project.”

101. The Area Committee agreed the recommendations of the report, including acceptance of the offer from OCT and to refer their decision to the Council, as required by the council's procedures. The Council endorsed the decision on 19 March 2015. Members agreed to the inclusion of economic development burdens as part of the sale to mitigate the risks highlighted by Strategic Finance in relation to the business plan. OCT took possession of the building on 19 May 2015.

CHORD project

102. As part of our 2013/14 audit, we carried out some targeted audit work reviewing the council's governance over the Helensburgh development project. We reported issues relating to project governance. Internal Audit also carried out a review of the whole CHORD project from 2008 to 2014 and reported the results of their review to the Audit Committee in March 2015.

103. The Internal Audit report gave limited assurance on the CHORD projects over the period 2008 to 2014 but concluded that a number of significant improvements have been put in place over the last 12 months to ensure their implementation is undertaken in line within revised timelines and budget. The report also noted better governance arrangements since the area committees took over governance responsibilities and improvements in the

standard and consistency of reports presented to the area committees.

104. As part of the 2014/15 audit, we carried out some follow up work to monitor progress with these issues with particular focus on the Oban Bay/Harbour project.

105. Our review found the project has not progressed as planned and there is a risk that costs will exceed the budget on completion. In particular:

- a legal writ was raised by a local business regarding the proposed North Pier Maritime Visitor Facility at the beginning of 2015 which is expected to be resolved soon. The project is currently on standstill. Market prices for construction material and labour may increase and potentially impact the financial viability of this project.
- costings in the original documents relating to the public realm project were underestimated. The initial allocation for the public realm was £2.650 million however costs have increased because the scope of the work was increased and construction market costs have increased for both materials and labour. In May 2015 the public realm budget was increased to £3.714 million, with £0.300 million of the increase in funding coming from Transport Scotland. The remainder of the additional funding has been reallocated from proposed CHORD work on the North and South Pier.

Recommendation No 3

106. We will continue to monitor work on CHORD and other capital projects as part of our ongoing audit responsibilities.

Scottish submarine museum

107. Last year we reported that senior officers acknowledged that the council did not follow its own procedures in considering the submarine museum funding request. In response the council agreed to introduce a more formalised process for considering external funding requests. This issue is considered further at para 140 and records that a formal four-stage process for assessing external funding requests has now been agreed.

108. In March 2014, members agreed to provide £140,000 funding to the Scottish Submarine Trust to support the opening of a Scottish Submarine Museum in Helensburgh. Members also agreed that a number of additional conditions would need to be satisfied prior to any release of the funding, in three tranches. These conditions included exhibition to the council of invoices for works or services provided to the value of the instalment. The first and second instalments totalling £100,000 have been released. The third instalment of £40,000 has not yet been paid.

109. In January 2015 £100,000 was received by the Scottish Submarine Trust from the Coastal Communities Fund bringing the total raised to £740,000. The other contributions are £300,000 in kind for a World War II X-Craft mini submarine, £200,000 funding from the MOD Armed Forces Covenant Fund and the £140,000 funding from the council.

110. Initially it was hoped the museum would be open in time for the Commonwealth Games in July 2014. It is disappointing to see that despite the funding provided, the museum is not yet open. The Chairman of the Scottish Submarine Trust has said he is confident that the museum will open at some point during 2015.

Follow up of Gourock to Kilcreggan ferry service

111. Last year we recommended that to improve the processes for collecting council berthing fees for the Gourock to Kilcreggan ferry service, a signed agreement with Clydelink should be agreed. This would enable Strathclyde Partnership for Transport (SPT) to pay monies due directly to the council.

112. The council agreed to contact both Clydelink and SPT to seek to put this in place, with a target completion date by the Head of Economic Development and Strategic Transportation of 30 November 2014.

113. However setting up this arrangement with SPT is proving more difficult than the council expected. In addition, the original harbour officer to which this issue was assigned, resigned in early 2015. His replacement handed in his resignation in May 2015 and left in June 2015. A revised target completion date of 30 September 2015 has been set by the council.

114. We will continue to monitor the implementation of this recommendation as part of our 2015/16 work.

Internal audit

115. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
116. Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
117. We placed formal reliance on aspects of the work of internal audit including financial ledger, trade receivables, trade payables, payroll and treasury management. In terms of our wider code responsibilities we took assurances from other work including procurement, performance indicators, performance management arrangements and health and social care integration.

ICT audit

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

119. Argyll and Bute Council successfully achieved re-accreditation to allow access to the Public Service Network (PSN) on 23 January 2015. To achieve this a validated information assurance assessment was carried out against a series of stated conditions to gauge compliance. The council is formally certified as compliant until February 2016. Obligations in participating in the PSN dictate that organisations undertake annual security health checks and maintain appropriate security policies including acceptable use and lockdown policies. The Code of Connection requirements for accessing the PSN are stringent.
120. The council's website achieved a 4 star rating in the SOCITM Better Connected rating for council websites and was listed as one of the top 20 best developed sites.

Arrangements for the prevention and detection of fraud

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

National Fraud Initiative in Scotland

122. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide

range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

123. Council Tax data in relation to the Council Tax Reduction Scheme has returned a number of matches and these are currently being investigated. From work undertaken to date, 359 discounts have been removed with an approximate value of £100k.

124. Work is continuing on the other matches but no amounts to be recovered have yet been identified.

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

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

Correspondence referred to the auditor by Audit Scotland

Argyll and Bute Alcohol and Drug Partnership

126. Argyll and Bute Council undertook a commissioning process for community based addiction recovery services in 2014 on behalf of the Argyll and Bute Alcohol and Drug Partnership (ADP). Four organisations submitted bids for the services. On 4 November 2014 the contract was awarded to Addaction Scotland with a start date of 1 January 2015. Prior to this, a range of services had been provided by five smaller local third sector service providers.

127. Due to the profile of this commissioning process in the local community and receipt of correspondence from members of the public and local MSPs, the audit team carried out a review of this process.

128. The findings from our review were reported to the council/ADP in May 2015. These include:

- In November 2014 the contract was awarded to Addaction Scotland with a start date of 1 January 2015. It is acknowledged that this lead time was too short.
- Addaction Scotland was not registered with the Care Inspectorate to provide regulated services in Argyll and Bute until 25 February 2015. It was, therefore, in breach of the contract requirements from 1 January to 25 February 2015.

- Two potential bidders have told us that they did not submit bids for the contract because of the onerous nature of the housing support services that they believed were required within the fixed price for the contract.
 - The invitation to tender required that a full review of services was to take place and that a more equitable service was required across all areas of the council by year 3. Immediately following commencement of the contract, Addaction Scotland carried out an assessment of the needs of all known service users and concluded that no service users required housing support services at this time. The ADP agreed that Addaction Scotland could move towards its model of more equitable services in year 1.
 - In our opinion, there was a degree of ambiguity in the ITT regarding the timescale of the service review. The immediate review of services and the non-supply of housing services at this time could be considered material to the contract. We therefore recommended that the council take external legal advice to satisfy itself that the contract is compliant with public procurement legislation.
129. In response the council sought external legal advice which includes the conclusion, "In our view it was not unreasonable for the Council to assess the potential benefits of that acceleration in terms of best value and the needs of the service users, as against the potential risk of a procurement law breach, which seems to us to be a risk within reasonable parameters".

130. As set out in our report, only the courts can decide on whether the immediate review of services and the non-supply of housing services could be material to this contract and may breach public procurement legislation. We note the conclusions of the legal adviser and in these circumstances feel it is reasonable for the council to conclude that the contract with Addaction Scotland remains valid.
131. Our report contains a number of additional recommendations to the council and the ADP. The findings from our review have been accepted by the ADP Executive and were presented to the Community Planning Partnership Management Committee on 17 June 2015. Our report was also considered by the council's Audit Committee on 19 June 2015 and the PRS Committee on 27 August 2015.
132. We will monitor progress in implementing the report's recommendations as part of our ongoing audit responsibilities.

Transparency

133. Council meetings are held in public and committee reports are available as public documents. Performance reports are available on the Council's website.
134. Financial reporting at the council is seen to be open and sufficiently detailed. The budget setting process is open and follows public consultation. Annual financial statements, alongside regular financial monitoring reports, are available as public documents, and are open to scrutiny from members.

135. The council has a process in place for considering which reports are to be discussed in private, due to inclusion of commercially sensitive information and other valid reasons. However in our 2013/14 Report, we recommended that the council should review the range of reports that it discusses in private and consider whether it is getting the balance right between open and closed consideration of items.

136. In response to our recommendation, the Head of Governance and Law prepared a report in July which reviewed the submission of confidential reports at both centre and area committees. His report has been considered by the Strategic Management Team and is due to be submitted to the Council in September 2015.

Freedom of Information requests

137. Argyll and Bute Council received 1,276 freedom of information (FOI) requests during 2014/15 and responded to 1,196, or 93.7% of these within the statutory timescale of 20 working days. There were 26 requests for review. There was one referral to the Office of the Scottish Information Commissioner who upheld the council's decision and a further referral is being considered.

Following the public pound

138. Last year we reported that a targeted follow-up study was to be carried out across all local authorities in Scotland. A key aim of the study was to provide the Accounts Commission with a position statement on councils' use of ALEOs and, on progress

since the 'Arms-length External Organisations: Are you getting it right' report published in 2011. We concluded that the council does not have any ALEOs and accordingly no further work was required.

139. In January 2015 the Accounts Commission sent a letter to councils encouraging them to apply good practice more consistently across ALEOs and more widely where the council provides funding to third parties.

140. In the Annual Report on the 2013/14 Audit we said that the council agrees that there needs to be a more formalised process for considering external funding requests.

141. Our follow-up enquiries have established that in March 2015, the PRC agreed a formal four-stage process for assessing external funding requests. We will continue to monitor the process for dealing with external funding requests and payments to other external organisations as part of our audit.

Integration of health and social care

142. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. It is one of the most significant public sector reforms of recent years and much detailed planning needs to be progressed before full implementation by the statutory date of 1 April 2016.

143. A body corporate model was agreed as the vehicle for integration in Argyll and Bute. Argyll and Bute Council and NHS Highland Health Board will form the Argyll & Bute Health and Social Care Partnership (HSCP). Delegated responsibility and resources will be managed by Argyll and Bute Integration Joint Board (IJB).
144. A Chief Officer, Health and Social Care was appointed in October 2014 and took up the position in December 2014.
145. The Argyll & Bute Integration Scheme was agreed and submitted to the Scottish Government in March 2015. The Integration Scheme was signed off by the Cabinet Secretary in late April 2015 and set before Parliament. Approval for Argyll and Bute to proceed was given in June 2015.
146. Due diligence was carried out in April 2015 to support the funding provided to the Health & Social Care Partnership over the next three years. A report by the Chief Internal Auditor was submitted to the June 2015 Audit Committee which provided details of the due diligence processes applied to the creation of the overall Argyll and Bute Health and Social Care Partnership proposed budget for the 2015/16 financial year and the process for identifying finances to be allocated to the Partnership.
147. The Integration Joint Board (IJB) came into legal effect on 18 August 2015 when it first met. Their main focus during 2015/16 will be to produce a three year Strategic Plan, agreeing a budget to be delegated and develop and establish the integrated management and governance arrangements. A timetable has been set out for the production of this and the Strategic Plan is

expected to be finalised by the end of December 2015. The Strategic Plan will go out to formal public consultation from September to November.

148. In August 2015, internal audit reported on a review of Health and Social Care partnership arrangements. The audit gave a substantial level of assurance in terms of progress to date on governance arrangements, management structures and committee and reporting arrangements. They have reported a potential risk in relation to the non-filling of the senior finance role which could impact on progress. The council needs to ensure that progress continues for the statutory deadline to be met.

Welfare Reform

149. The council's Welfare Reform Working Group (WRWG) has continued to provide regular updates to Strategic Management Team (SMT) on progress in respect of the council's delivery of Discretionary Housing Payments (DHP) and Scottish Welfare Fund (SWF) services.
150. The Council agreed in February 2014 to pay all DHP applications for medium and high hardship cases for all priority groups for 2013/14 and 2014/15 and to carry forward the balance of monies as earmarked funds for a range of welfare reform interventions. These include a tenants incentive scheme, a range of support materials, digital access expansion, provision of additional crisis intervention and support.

151. The council was successful in bidding to be one of the 11 national Universal Services Delivered Locally (USDL) Trial sites. The trial ran from September 2014 to August 2015. The outcomes will inform the council's future relationship with the DWP as part of the Local Support Services Framework (LSSF) and are a key preparation for the rollout of Universal Credit in Argyll and Bute.

Housing and council tax benefits performance audit

152. Audit Scotland carried out a risk assessment of the council's benefits system in 2014 following which an action plan for improvement was agreed with management. The main areas for improvement were identified as:

- updating key council documents to ensure that they reflect current policy and procedures
- ensuring that appropriate evidence is requested by staff at the first point of contact to enable claims to be processed
- addressing the reasons why the council has failed to meet its financial accuracy target of 95% since 2010/11
- determining the effectiveness of the approach for linking intervention outcomes to the value of overpayment/underpayment to inform future intervention strategies
- addressing the reasons for the declining trend in the percentage of sanctions arising from completed investigations.

153. Audit Scotland's specialist benefits team will review progress against the action plan during 2015/16.

Local scrutiny plan

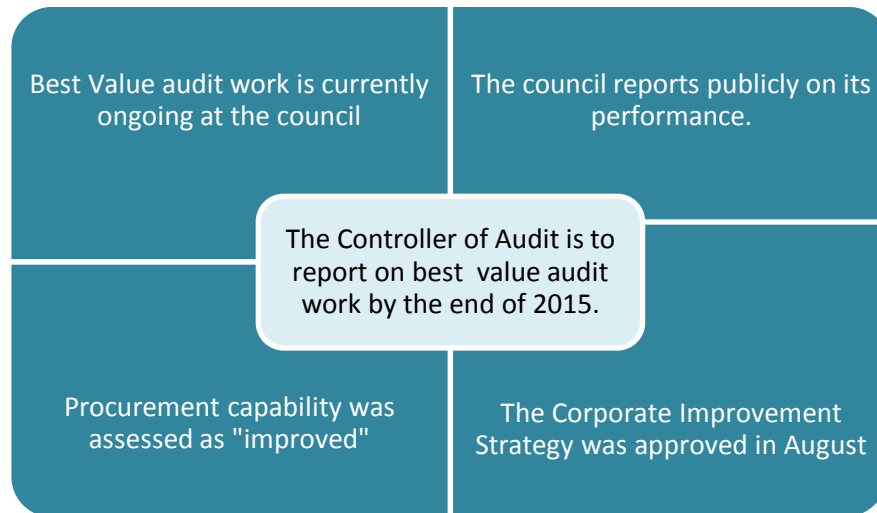
154. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Argyll and Bute Council in April 2015. The LSP confirmed the targeted best value follow up audit work.

155. A range of nationally driven scrutiny activity will be undertaken in 2015/16. The nature and timing will be reflected in the next scrutiny plan.

Outlook

156. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations. In 2015/16, health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



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

Best Value audit

158. The follow-up audit report by the Controller of Audit to his 2013 statutory report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted that it was encouraged the

council was making progress against its previous findings of October 2013. The Commission also agreed that it was too early to assess the effectiveness of actions and plans being implemented and concluded that there is still much work to be done by the council to secure the improvements that were required in October 2013.

159. In September 2014, after considering the Best Value follow up report, the council agreed a revised action plan. It set out the activities and improvements undertaken to date and included a further 10 actions points as a consequence of the follow-up report in order to support continued improvement. The revised action plan was prepared following discussion at a members' seminar.

160. An action plan update was presented to the PRC in August 2015. This reported that the majority of actions within the action plan are complete, with the remainder on track as per the agreed timescales.

161. Best Value audit work is currently being carried out at the council to consider progress in the areas highlighted by the Accounts Commission in its July 2014 findings. Particular focus is on the extent to which political management arrangements support effective decision-making, the effectiveness of the council's scrutiny arrangements and whether roles and relationships, including those between members and officers, facilitate the effective delivery of council business. The Controller of Audit is

to report on progress to the Accounts Commission by the end of 2015.

Procurement

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

Performance management

163. The Planning and Performance Management Framework (PPMF) remains a core component of the improvement process for the council, to help ensure delivery of the Corporate Improvement Plan. The Framework is designed to draw together improvement activities within the council to ensure that improvement is taking place in a coordinated manner.

164. An updated version of the Council's PPMF was presented to the PRS Committee in February 2015. The framework was updated to reflect the changes to political management arrangements in the council and the role of strategic committees. It had been considered by the Strategic Management Team and incorporated feedback from strategic committee development days and officer input through departmental management teams.

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

166. The council has agreed its approach to delivering the Single Outcome Agreement through the 'Planning Our Future' paper agreed by the PRC in December 2014. This includes the Service Choices process referred to above which will influence the council's approach to corporate improvement.

167. A Corporate Improvement Strategy, to support the delivery of the Council's priorities contained within the Corporate Plan 2015-2017, was approved by the PRC in August 2015. The strategy was informed by previous improvement work. It sets out how to deliver coordinated programmes of performance and improvement activity directed at council services. Five main categories of improvement activity are identified: planning and performance management, scrutiny, self assessment, consultation and engagement and benchmarking. It is supported by an action plan to be monitored by both strategic committees and the PRS Committee.

168. The council use Pyramid performance management software to record performance information and generate performance scorecards. The system includes Council, Department, Service and Area Scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and SOA deliverables.

169. Quarterly performance reports including council and departmental scorecards are presented to the PRSC. The reports outline performance during the period including a review of successes, key challenges and improvement actions for the coming period.
170. An Annual Performance Review is undertaken annually by each service. This provides the mechanism to review the previous year's key successes and challenges and identify key improvements for the coming year. An Annual Report is also produced as part of the public performance reporting strategy.
171. In May 2014 the PRS Committee agreed to review the Local Government Benchmarking Framework in four sections over a year with focus on rankings and trends within the family groups of eight councils. This has been completed.

Overview of performance targets in 2014/15

172. There are 360 success measures which were monitored through service scorecards in 2014-15. These were analysed for the end of 2014/15 to show progress against target. The analysis showed a position with 10 (3%) indicators having no target, 307 (85%) indicators meeting or exceeding target and 43 (12%) adrift of target.
173. Of these measures 36 (10%) are showing no trend (mostly new measures), 109 (30%) are trending positively, 122 (34%) are showing a steady trend and 93 (26%) are showing a negative trend.

174. Maximising staff attendance continues to be a priority for the council. There has been a slight increase in the average days lost per FTE employee from 10.4 in 2013/14 to 10.6 in 2014/15. In respect of the split between Teachers and LGE staff groups there has been a significant increase from 6.7 to 8.2 for teachers and a slight decrease from 11.6 to 11.2 for LGE staff.
175. The category 'Stress, Depression, Mental Health and Fatigue' remains the top reason for sickness absence and initiatives have been put in place to address this. The council conducted a Stress Audit during 2014 and a Stress Audit Action plan was developed for each Service. A new Stress at Work Policy has been developed and is currently being progressed by the HR Team. Mandatory Stress Awareness Training has also been rolled out across the Council for all managers and staff.

Statutory performance indicators (SPIs)

176. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
177. For 2014/15 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity

- SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
178. An evaluation of all Scottish councils' approaches to public performance reporting was reported to the Accounts Commission in June 2015. This updated the previous assessment of September 2014. An individual assessment for Argyll and Bute Council was issued to the Leader, Chief Executive, and Chair of the Audit Committee in July 2015. This contains information that will help the council make further improvements in performance reporting.
179. In last year's assessment, councils were assessed as either 'fully', 'partially' or 'not' meeting requirements. For this year's evaluation a simpler and clearer assessment scale was introduced which also promoted a stronger focus on continuous improvement. This assessed councils as either fully meeting requirements or having an 'area for improvement'.
180. The change in methodology means it is not possible to make exact comparisons between the 2014 and 2015 assessments. It is clear, however, that the council is generally meeting its requirement to report publicly on its performance. In terms of compliance with SPI1 and SPI2 Argyll and Bute Council were included in the 2nd quartile with full compliance for 10 of the 18 themes.

181. Plans are in place for further improvement in the council's public performance reporting.

National performance audit reports

182. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. Argyll and Bute Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

183. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' 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.
184. An Equalities Mainstreaming report was presented to the Policy and Resources Committee in March 2015. It reported that the council had made good progress on actions to deliver the agreed equality outcomes since April 2013. It also reported that the workforce is broadly representative of the population.
185. The report also identified a positive equal pay environment, mainly as a result of the successful implementation of single

status. There is also a remaining organisational pay gap that is mostly reflective of the relative large numbers of lower paid female employees in high number occupancy roles.

200. Any areas for improvement identified in the Best Value audit, to be completed by the end of 2015, will provide a focus for the council.

Outlook

199. The council's regular review of performance, and implementing the corporate improvement strategy will be critical to the council continuing to achieve its key priorities and achieving best value.

Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>Argyll and Bute Council receives a significant amount of income in addition to SG funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Detailed testing of revenue transactions across each service area. • Testing of significant Grants received. • Focused testing of the Council Tax and NDR Income Accounts. 	<ul style="list-style-type: none"> • Controls testing of Accounts Receivables found no weaknesses in council systems. • No significant errors were identified through detailed testing of revenue transactions across each service area. • Testing of significant Grants proved satisfactory. • No significant issues were identified through focused testing of the Council Tax and NDR Income Accounts. • Our conclusion is that income streams are not materially misstated.
<p>Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Reviewed of accounting estimates for bias • Evaluated significant transactions that are outside the normal course of 	<ul style="list-style-type: none"> • No unusual or inappropriate transactions were identified as part of detailed testing of journal entries. • A review of accounting estimates did not show any instance of bias.

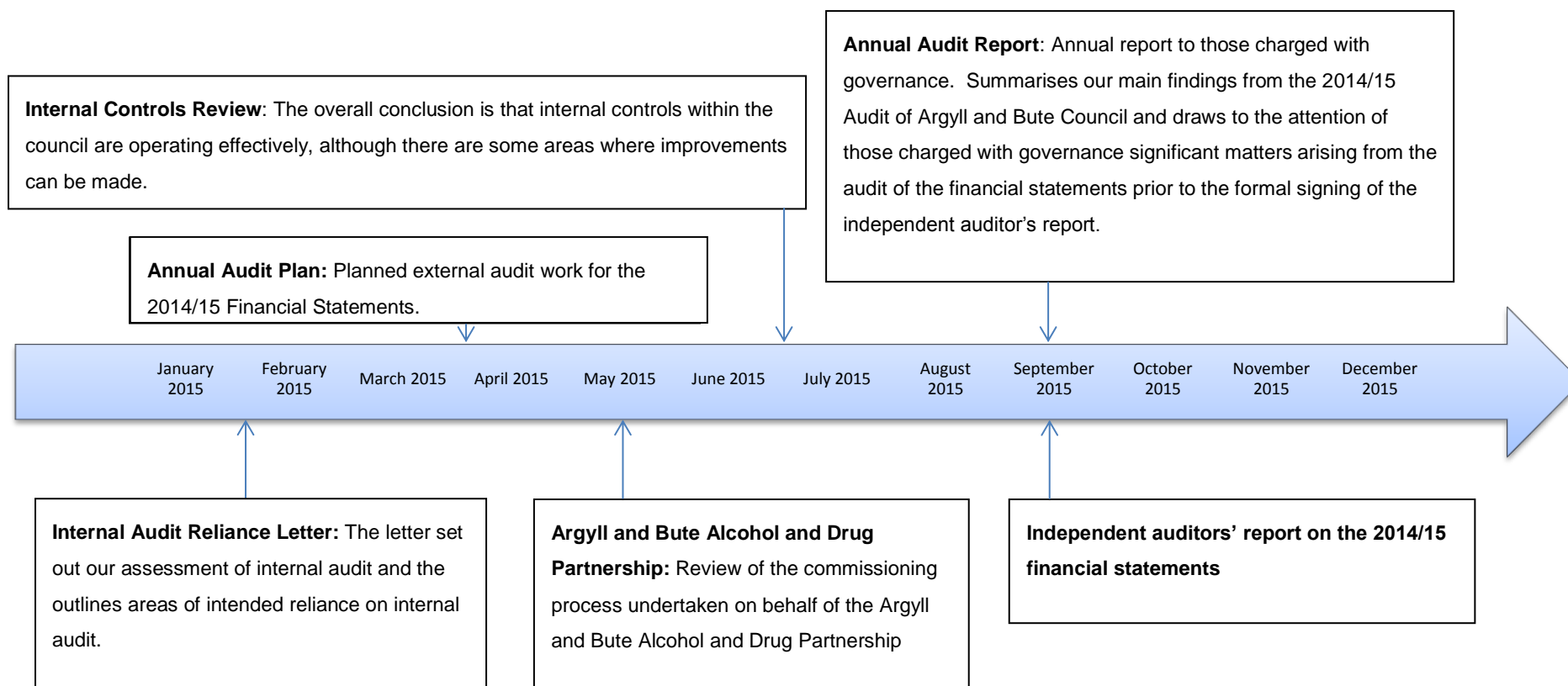
Audit Risk	Assurance procedure	Results and conclusions
<p>prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>business.</p> <ul style="list-style-type: none"> • Focussed testing of the regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • No significant transactions outside the normal course of council business were identified. • Focussed testing of regularity and cut-off assertions showed controls were operating effectively. • Our conclusion is that there is no management override of controls at the council.
<p>Equal Pay Provision</p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<ul style="list-style-type: none"> • Monitored of developments throughout the year • The equal pay provision was reviewed and discussed with officers as part of the 2014/15 financial statements audit process. 	<ul style="list-style-type: none"> • Based on advice from the legal section the year end provision for equal pay claims is £0.077 million.
<p>Group Accounts</p> <p>There may be changes to the group structure arising from amendments to The Code of Practice for Local Authority Accounting, reflecting the adoption of the following group accounts standards;</p> <ul style="list-style-type: none"> • IFRS 10 Consolidated financial 	<ul style="list-style-type: none"> • Liaison with officers during the course of the year regarding the group accounts arrangements. • The procedure for re-evaluating the group account boundaries was reviewed. 	<ul style="list-style-type: none"> • The procedure for re-evaluating the group account boundaries was reviewed and seen to be adequate in determining the status of bodies included in the group accounts. • Our conclusion is that group account disclosures meet with our understanding of the new accounting standards.

Audit Risk	Assurance procedure	Results and conclusions
<p>statements</p> <ul style="list-style-type: none"> • IFRS 11 Joint arrangements • IFRS 12 Disclosure of interests in other entities • IAS 28 Investments in associates and joint ventures (as amended). <p>There is a risk that the council and its group are not properly presented in the financial statements.</p>		
<p>2014 Regulations</p> <p>The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. There is a risk that the council and does not comply with the requirements of the revised regulations.</p>	<ul style="list-style-type: none"> • Liaison with officers during the course of the year to ensure that arrangements remain in place to comply with the revised regulations from 2014/15. • During our audit of the council's financial statements we ensured that all requirements relating to the revised regulations were achieved. 	<ul style="list-style-type: none"> • The 2014 Regulations have been complied with.
<p>Provisions</p> <p>This is an area of significant estimation based on management judgements. There are potentially areas in 2014/15, such as non-contractual holiday pay claims, where it is not yet possible to</p>	<ul style="list-style-type: none"> • All provisions were reviewed with senior council officers for appropriateness and accuracy based on the information available. • Monitoring of all technical guidance in this area. 	<ul style="list-style-type: none"> • Audit testing confirmed that all required provisions have been calculated appropriately.

Audit Risk	Assurance procedure	Results and conclusions
<p>give a definitive view on the likely outcome for the council.</p>		
<p>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</p>		
<p>Financial management and sustainability</p> <p>In our Annual Report on the 2013/14 Audit published in October 2014, we reported on the council’s budget gaps over the period 2016/17 to 2019/20. There is a risk that the council is unable to agree and deliver savings measures and therefore unable to deliver services within budget.</p>	<ul style="list-style-type: none"> • Reviewed council papers and minutes to identify any potential areas of risk. • Monitored revenue and capital budget monitoring reports throughout the year to identify any significant variances between budgeted and actual spend to identify any potential issues. 	<ul style="list-style-type: none"> • See the sections of this report covering financial management on sustainability service choices process, will deliver savings in excess of target.

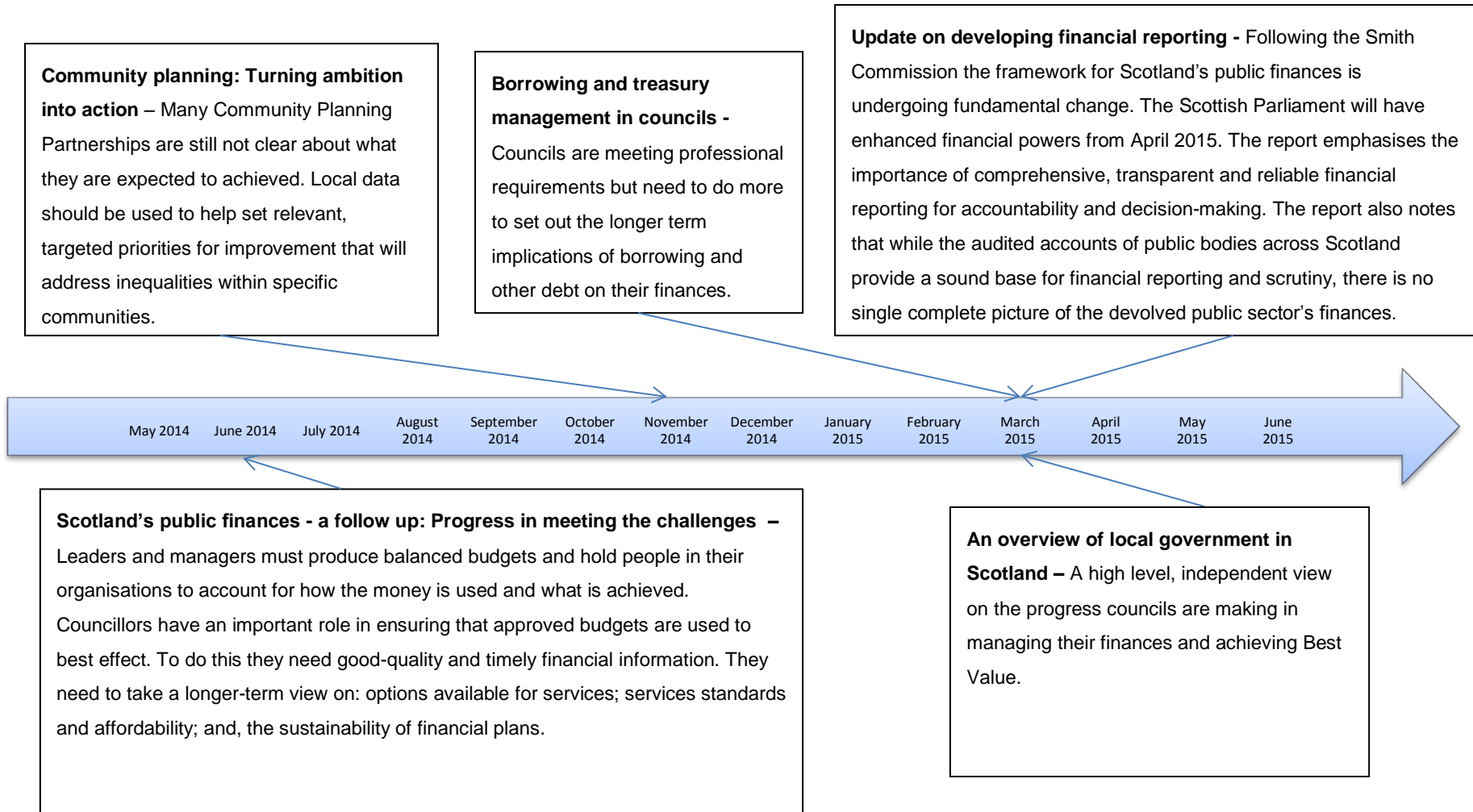
Appendix II

Summary of Argyll and Bute Council local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2013/14



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>1 20/51</p>	<p>Financial Sustainability</p> <p>The delivery of savings over the next 5 years will continue to remain challenging. The current budget gap is estimated to be between £21.7 million and £26.0 million over the period 2016/17 to 2020/21, requiring savings of between £7.9 million and £8.8 million in 2016/17 and between £7.9 million and £9.6 million in 2017/18.</p> <p>Risk</p> <p>The council is unable to achieve the necessary savings.</p> <p>Recommendation</p> <p>The council should identify the savings required and develop detailed plans to show how these will be delivered.</p>	<p>The Policy and Resources Committee, 18 December 2014, agreed to a Service Choices programme to balance the budget in line with Members priorities; taking into account the Single Outcome Agreement. The Service Choices process has been established to address the five years in the medium term to 2020-21. Initial focus will be on the first two years to 2017-18. So far, savings options have been identified in excess of the target for 2016-17 and 2017-18. Future work will keep the medium term plan under review and address proposals up to the period 2020-21.</p> <p>Officers will continue to refine current proposals and also consider other opportunities for innovation and transformational change.</p> <p>Effective budget monitoring arrangements will be maintained to ensure regular reporting to both management and Members on the current year's position as well any forecast changes across the medium term position.</p>	<p>Head of Strategic Finance</p>	<p>February 2016 Budget and ongoing</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
		The adequacy of reserves will be kept under review in order to support the delivery of the Single Outcome Agreement, support innovation and cost reduction and maintain a contingency that is relevant to the financial situation.		
2 27/95	<p>Sale of Castle Toward</p> <p>The total sum offered for the property includes £0.310 million payable only after receipt of all necessary and detailed consents for the implementation of the proposed purchasers' master plan.</p> <p>Risk</p> <p>There is a risk that the £0.310 million will not be paid if the purchasers do not obtain permission for the proposed development.</p> <p>Recommendation</p> <p>Periodic updates should be provided to members on when this sum is likely to be realised.</p>	Periodic updates are currently provided to Area Committee or Council where there has been a request for this (e.g. Kilbowie). This will also be done for Castle Toward.	Executive Director, Customer Services	Ongoing

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>3 28/105</p>	<p>CHORD - Oban Bay/Harbour project</p> <p>The project has not progressed as planned. In particular, the North Pier Maritime Visitor Facility is on standstill and no work can progress until legal issues are resolved. As a result, market prices for construction material and labour may increase and potentially impact the financial viability of this project. In addition, costings in the original documents relating to the public realm project were underestimated.</p> <p>Risk</p> <p>There is a risk that costs of the project will exceed the budget for the project.</p> <p>Recommendation</p> <p>Project governance arrangements should ensure that agreed outcomes are delivered to scope, timescale and cost.</p>	<p>The CHORD programme of projects remain complex and challenging in terms of delivery but a number of significant improvements have been put in place over the last 12 months to ensure their implementation is undertaken in line with revised timelines and budget.</p> <p>Monthly highlight reports are completed by Project Managers covering any issues and remedial action required in terms of timescale, budget, risks etc. and reported to Development and Infrastructure Services Executive Strategic Project Board.</p>	<p>Regeneration Project Manager – North Pier Maritime Visitor Facility</p> <p>Regeneration Project Manager – Oban Bay Public Realm</p>	<p>North Pier Maritime Visitor Facility – timescale dependent on outcome of legal action.</p> <p>Oban Bay Public Realm, PH2 Tender awarded in August within budget.</p>