

# Argyll and Bute Council

2019/20 Annual Audit Report



Prepared for the Members of Argyll and Bute Council and the Controller of Audit

30 November 2020

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# Key messages

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## 2019/20 annual accounts

- 1** Our audit opinions on the annual accounts of Argyll and Bute Council, its group and the section 106 charities administered by the Council are unqualified and report that the accounts present a true and fair view of the financial position of the Council.
- 2** The financial statements include an explanatory paragraph within Note 4 describing the effect of material uncertainties, caused by Covid-19, as declared in the valuation reports for property valuations. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.
- 3** Covid-19 created additional challenges for both council and audit staff. The unaudited accounts were submitted for audit in line with the original timetable but key dates in the financial reporting process were updated to reflect the revised statutory deadlines.

## Financial management

- 4** The Council achieved an underspend of £0.502 million.
- 5** For the third consecutive year, the social work budget has been overspent. A repayment agreement is in place with the Integration Joint Board; however, financial pressures and funding gaps are being reported in the short term and there is a risk that the repayment plan is not achieved.
- 6** The Council has appropriate and effective financial management arrangements in place that allow members and officers to scrutinise financial performance effectively.

## Financial sustainability

- 7** The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 is expected to create significant financial challenges over the next five financial years to 2025/26.
- 8** Increased levels of demand coupled with increasing costs and reductions in government funding will continue to place a strain on the Council's capacity to deliver services at current levels. The Council has established a Budget Working Group to assist in the identification, development and scrutiny of savings options.
- 9** Although a medium-term financial plan is in place it will need to be revised and updated to reflect the longer-term impacts of Covid-19. These changes to the financial plan will need to link with, and support, changes that are being made as a result of service redesign and efficiency plans in light of the current and longer-term impacts of Covid-19.

## **Governance and transparency**

- 10** The Council has appropriate governance arrangements in place. We recognise that in responding to the Covid-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.
- 11** The Council is open and transparent in the way it conducts its business.

## **Best Value**

- 12** The Best Value Assurance Report (BVAR) report recognises the progress the Council had made since the previous Best Value audit in 2015. The BVAR also highlighted improvements are still required for the Council to be able to demonstrate it is achieving all aspects of Best Value.
- 13** In response to our BVAR the Council has developed a BVAR improvement plan which was presented to the full Council together with a commitment to provide six monthly updates on progress. We will follow up progress against the improvement plan in our 2020/21 audit.
- 14** The key finding from our BVAR is the opportunity for the Council to make improvements to its performance reporting and to make better use of benchmarking and performance information to drive continuous improvement.

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# Introduction

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1. This report summarises the findings arising from the 2019/20 audit of Argyll and Bute Council (the Council) and its group. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented the Audit and Scrutiny Committee meeting on 17 March 2020.

2. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated 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 2019/20 have been:

- an audit of the Council and its group 2019/20 annual accounts and the statement of accounts of the eight section 106 charities administered by the Council and the issue of independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- audit work covering the Council's arrangements for securing Best Value. This resulted in the issue of a [best value assurance report](#) to Argyll and Bute Council on 21 May 2020
- consideration of the four audit dimensions.

4. After the publication of the Annual Audit Plan, in common with all public bodies, the Council has had to respond to the global coronavirus pandemic. The impact of the global coronavirus pandemic during the final month of 2019/20 will continue to be felt into financial year 2020/21 and beyond. This has, and will continue to have, significant implications for the provision and costs of services including the suspension of planned projects and activities. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

5. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We issued a paper, [Covid-19 How public audit in Scotland](#) is responding, setting out Audit Scotland's strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

### Adding value through the audit

6. We add value to the council through the audit by:

- early work with the s95 Officer to achieve a mutual understanding of the implications of the Council's loans fund reprofiling project from a financial planning, accounting and governance perspective. We shared insights from our work with other councils undertaking similar reviews to help inform the approach being taken at Argyll and Bute;
- regular dialogue with senior officers as the strategic and operational impact of Covid-19 developed and presenting to Audit and Scrutiny Committee on key challenges in the Covid environment;
- shared learning from our experiences working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2019/20 accounts within a revised accounts and audit timetable;
- making use of remote working to meet the revised 17 November 2020 audited annual accounts deadline ahead of the new statutory deadline of 30 November 2020
- ongoing conversations with Strategic Management Team to understand the Council's response to the Best Value Report (published in May 2020) acting as a critical friend and offering appropriate and constructive challenge to the actions being taken to address the recommendations contained in the report;
- reporting our findings and conclusions in public and sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

7. Taking these together, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

### Responsibilities and reporting

8. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

9. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

**10.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the Council's performance management arrangements;
- the suitability and effectiveness of corporate governance arrangements, and financial position;
- the arrangements for securing financial sustainability; and
- Best Value arrangements.

**11.** In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**12.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**13.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

## Auditor Independence

**14.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**15.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £263,220 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**16.** 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) in due course.

**17.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit. This is especially appreciated during the particularly challenging circumstances arising due to the Covid-19 pandemic.

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# Part 1

## Audit of 2019/20 annual accounts

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### Main judgements

Our audit opinions on the annual accounts of Argyll and Bute Council, its group and the section 106 charities administered by the Council are unqualified and report that the accounts present a true and fair view of the financial position of the Council.

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The financial statements include an explanatory paragraph within Note 4 describing the effect of material uncertainties, caused by Covid-19 as declared in the valuation reports for property valuations. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.

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Covid-19 created additional challenges for both council and audit staff. The unaudited accounts were submitted for audit in line with the original timetable but key dates in the financial reporting process were updated to reflect the revised statutory deadlines.

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The annual accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual accounts are unmodified

**18.** The accounts for Argyll and Bute Council and its group for the year ended 31 March 2020 were approved by the Audit and Scrutiny Committee on 17 November 2020. As reported in the independent auditor's report;

- the financial statements give a true and fair view of the financial position of the Council and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

### The Council highlighted an uncertainty in property valuations due to Covid-19

**19.** The 'Emphasis of Matter' section in our Independent Auditor's Report refers to the disclosures in note 4 of the financial statements which identifies a material valuation uncertainty in respect of property valuations caused by the Covid-19 pandemic. Emphasis of Matter paragraphs are added to auditor's reports where the auditor considers it necessary to draw user's attention to matters which are fundamental to the understanding of the financial statements. Further information is contained in [Exhibit 3](#) below. The audit opinion is not modified in respect of this matter.



## The annual accounts were signed off in line with revised statutory timescales

**20.** The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts. The Council did not need to use the powers in the 2020 Act to postpone the publication of the unaudited accounts, and these were submitted to us for audit on 29 June 2020 in line with the original timetable.

**21.** Remote working brought additional challenges to the audit process. This affected how we were able to work as an audit team and with council staff. Our planned audit work had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. New ways of working and communicating with each other had to be implemented in order to deliver an efficient and effective audit that met our quality standards. Despite these challenges we were able to deliver the audit in line with the new statutory deadline.

## Our audit opinions on the eight Section 106 charities were unmodified

**22.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Argyll and Bute Council are sole trustees, irrespective of the size of the charity.

**23.** A review of the trust funds arrangements has been undertaken by officers to provide clarity around the current arrangements. Consideration has been given to streamlining the approach which would categorise trust funds based on their distribution and allocation methods. Plans are being progressed to revise the approach to the trust funds.

**24.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view of the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**25.** These were considered by the Audit and Scrutiny Committee on 17 November, approved by the Council on 26 November and signed by the statutory deadline of 30 November.

## No objections were received on the annual accounts

**26.** 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. There were no objections to the 2019/20 accounts.

## Whole of Government Accounts

**27.** In accordance with the WGA guidance we intend to complete the required assurance statement and submit it to the National Audit Office by the extended deadline of 4 December 2020.

## Overall materiality is £6.062 million

**28.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement in the annual accounts. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements.

**29.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**30.** On receipt of the unaudited annual accounts we reviewed and re-assessed our materiality as summarised in [Exhibit 2](#). This resulted in minor changes to our materiality thresholds but did not impact on our planned audit approach.

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## Exhibit 2 Materiality values

Overall materiality	£6.062 million
Performance materiality	£3.637 million
Reporting threshold	£0.100 million

Source: Audit Scotland

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## Appendix 2 identifies the main risks of material misstatement and our audit work to address these

**31.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

**32.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan. However, we have reported wider dimension risks around financial sustainability and the development of medium-term savings plans within the action plan at [Appendix 1](#).

## Significant findings to report on the annual accounts

**33.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

**34.** The significant findings from our work are summarised in [Exhibit 3](#) and we have no matters to report around the qualitative aspects of the councils accounting practices. 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 the financial statements

Issue	Resolution
<p><b>1. Property valuations and Covid-19 uncertainty</b></p> <p>The Balance Sheet includes property, plant and equipment with a total value of £637.104 million. The Council has a five-year rolling valuation programme as detailed in Note 14.2. The asset valuer has included a material uncertainty disclosure within the valuation report, which covers specific asset categories, in accordance with the rolling programme and was conducted in March 2020. We believe that, due to the impact of Covid-19 from mid-March 2020, there is a wider material uncertainty within the property valuation provided.</p>	<p>Property assets are material and the impact of Covid-19 has increased the uncertainty over associated valuations. The conclusion of the valuer on the rolling programme of valuation work have contributed to the view that less certainty can be attached to the valuation than would otherwise be the case.</p> <p><b>Conclusion:</b> The accounts disclose this increased uncertainty at Note 4, and we have included an 'emphasis of matter' paragraph in our independent auditors' report to draw attention to the matter.</p>
<p><b>2. Non-current asset classifications</b></p> <p>On review of the non-current asset disclosures and underlying documents we identified £9.575 million of assets under construction relating to Campbeltown Grammar and Dunoon Primary School. These assets became operational during 2019/20 and should have been transferred out of assets under construction.</p> <p>Our review of the asset disclosures we noted community asset additions in year of £2.133m. The council did not recognise these community assets as assets under construction in 2017/18 and 2018/19.</p> <p>The asset register and Balance Sheet recognised Hermitage Park Depot as assets held for sale with a value of £0.900 million. However, the valuers report noted that the depot had been sold in March 2020.</p>	<p>Adjustments to non-current asset disclosures have been processed.</p>

Source: Audit Scotland

### Other findings

**35.** In January 2017 an Employment Tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case. On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.

**36.** In 2018/19 the Council instructed the actuary to the Strathclyde Pension Fund to quantify the impact on the Council's pension fund liability. This was reflected within the 2018/19 financial statements. No adjustment has been made to the 2019/20 accounts to reflect the consultation document of 16 July 2020 as the amount was not material.

**37.** Our audit also identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes have any impact on the council's outturn for the year.

## **Reasonable progress has been made in implementing prior year audit recommendations**

**38.** The Council has made reasonable progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

The Council achieved an underspend of £0.502 million in 2019/20.

For the third consecutive year, the social work budget has been overspent. A repayment agreement is in place with the Integration Joint Board; however, financial pressures and funding gaps are being reported in the short term and there is a risk that the repayment plan is not achieved.

The Council has appropriate and effective financial management arrangements in place that allow members and officers to scrutinise financial performance effectively.

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

### The Council operated within budget in 2019/20 with an overall underspend of £0.502 million

39. The Council achieved an underspend of £0.502 million in financial year 2019/20 despite additional costs as a result of Covid-19. The section 95 officer provided the year-end outturn report against budget to the 25 June 2020 meeting of the Business Continuity Committee. This report highlighted areas of significant over and underspends against the budget.

### Budget process was appropriate

40. The Council's budget and savings plans are aligned to Council priorities as set out in its Corporate Plan. The Council have made efforts in recent years to engage with the public during the budget setting process. Members of the public are able to submit their own priorities for the budget, along with suggestions for savings and income generation.

41. Detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives bi-monthly revenue and capital monitoring reports.

42. The Council made significant savings (£2.367 million) in-year due to a review of the loans fund, as approved by the Council in February 2020. The main area of overspend was social services which is managed by the Integration Joint Board (IJB). These services overspent by £1.141million and the Council provided additional funding to meet the overspend.

43. The overspend against 2019/20 social services budget increased the total overspend against this budget to £5.348 million since 2017/18. This adverse position is due to a combination of forecast slippage on the delivery of agreed savings and the high demand for services.

44. The IJB are required to repay the additional funds provided by the Council to address these overspends. An indicative timetable for repayments was presented to

the Argyll and Bute Health and Social Care Partnership (HSCP) meeting in August 2020. It is intended that the money due to the Council will be recovered through reductions in future IJB funding. Whilst a repayment agreement is in place, current IJB financial projections are forecasting an overspend in 2020/21 due to costs arising from the impact of Covid-19. Funding gaps are also projected in both 2021/22 and 2022/23. There is a risk that the IJB may be unable to repay the funding received from the Council in line with the agreed timetable. The Council has appropriate and effective financial management arrangements in place that allow members and officers to scrutinise financial performance effectively.

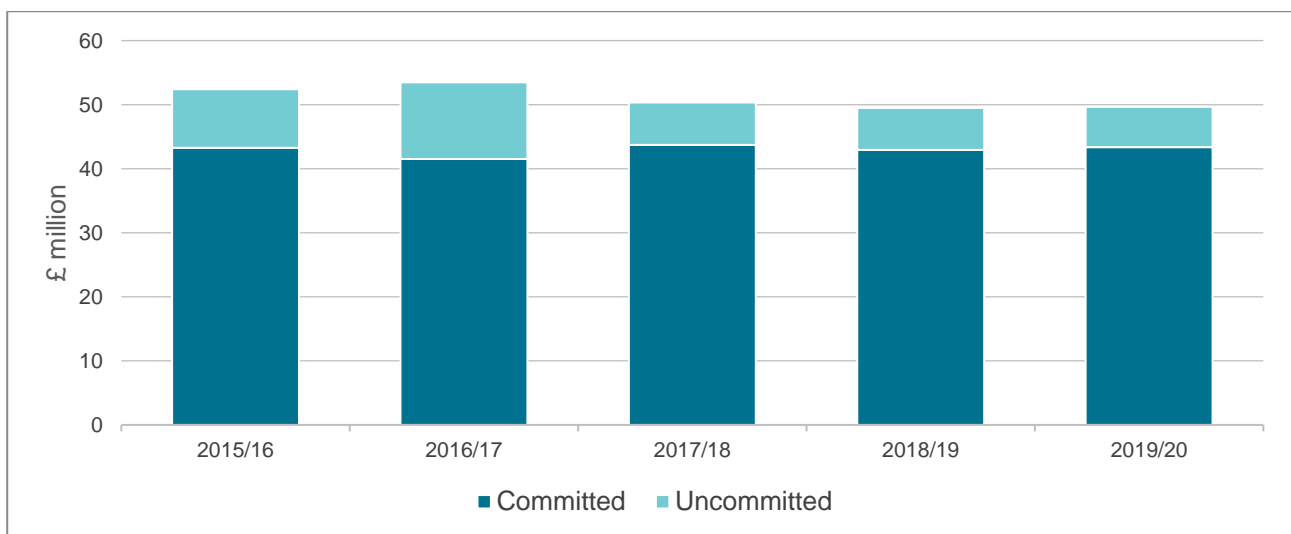
**45.** Senior management and members receive regular and accurate financial information on the Council's financial position. These reports allow members and officers to scrutinise financial performance effectively throughout the year. Our BVAR concluded that these reports were of a high quality and clearly explain the Council's financial position.

### The level of General Fund reserves has remained stable

**46.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the Council increased from £55.528 million in 2018/19 to £55.892 million in 2019/20. The general fund reserve accounts for £49.67 million of the total usable reserves, although a substantial proportion are committed. The remainder of the usable reserve balance consists of the repairs and renewal fund and capital fund which have year end balances of £1.843 million and £4.379 million respectively.

**47.** [Exhibit 4](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. The exhibit illustrates the relatively stable general fund reserve position the Council has maintained with the balance reducing by £2.747 million over this period. Whilst this is in line with the approved strategy, the impact of any service overspends, will reduce uncommitted reserves further, meaning that the Council will be at risk of breaching its reserves policy.

## Exhibit 4 Analysis of general fund balance



Source: Argyll and Bute Council Annual Report and Accounts 2015/16 to 2019/20

## Planned efficiency savings were not fully realised but departmental underspends met the shortfall

**48.** The Council has established savings plans to drive efficiencies and address any budget gap. Annual savings plans are created for the following year and are considered by the Policy and Resources Committee with the final savings plan approved by the Council as part of the annual budget proposal.

**49.** In 2019/20, the Council planned to achieve efficiency savings of £5.138 million from 67 identified savings options. This included saving options agreed in 2017/18, 2018/19 and 2019/20. The Council achieved actual savings of £4.357 million (84.8% of this total). The shortfall of savings achieved (£0.781 million) was met by departmental underspends.

**50.** The BVAR highlighted that whilst the Council has achieved a balanced budget and generated savings and efficiencies through a focus on cost reduction this approach will not address future budget gaps and support the transformational change required to achieve the Council's vision.

**51.** The Council is currently undertaking a themed review to identify alternative ways to deliver services in a more efficient manner and to reflect on corporate learning in responding to Covid-19 and the resulting changes to working practices.

## There has been substantial slippage in the approved capital programme in 2019/20

**52.** The Council approved the 2019/20 capital plan with a budget of £36.036 million in February 2019. Throughout the year the Policy and Resources Committee receive regular reports on the capital plan. The reports outline progress against the plan and any changes to the agreed budget due to slippage, acceleration or virements.

**53.** The capital plan consists of 149 projects, with 131 of these either complete or on track. Total capital expenditure in 2019/20 was £19.321 million. As outlined within the Council's capital year end outturn report, previously agreed changes to the 2019/20 capital budget totalled £17.498 million. The changes to the capital plan relate to slippage in timescales for tender exercises, retentions, planning permission and the impact of Covid-19 on contractors. The most significant capital project delay relates to the Rothesay Pavilion project which was due to complete in June 2020. Delays were created after the identification of a need for asbestos removal work. At the Council meeting in February 2020, a proportion of the loans fund one-off gain was set aside to support strategic change projects, including Rothesay Pavilion.

**54.** Further delays have arisen after the contractor for the project entered administration and the Council will now need to appoint a new contractor to complete the work. The capital reports have identified a risk that the project may overspend as a consequence of these issues.

## Borrowing levels have reduced

**55.** The Council's external borrowing as at 31 March 2020 decreased by £10 million on the previous year to £173.6 million. New loans of £7 million were taken out and £17 million of PWLB loans were repaid during the year.

**56.** Due to the slippage on capital projects, the Council borrowed in excess of its requirements at the year-end by £1.9 million. The situation is expected to be corrected during 2020/21 as the Council looks to address and resolve the capital slippage.

## **Financial systems of internal control have been designed appropriately**

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

**58.** Our planned work on internal controls had to be reduced due to the impact of Covid-19. We did review the design of internal controls and test these by means of walk through tests. Consequently, we were able to conclude that the controls in the Council's main financial systems were appropriately designed and we were able to take assurance from internal work on financial systems as described at paragraph 91 below.

**59.** Through a combination of walkthrough tests, prior years external audit work, using the work of internal audit and substantive testing of financial transactions we concluded that there were no significant weaknesses in the Council's accounting systems used to record and process transactions.

**60.** Our conclusion is based on findings during the course of our normal audit work and these do not necessarily cover all the risks that may exist. It remains management's responsibility to determine the extent of the internal control system within the Council.



# Part 3

## Financial sustainability



### Main judgements

The Council and its wider group financial position is sustainable into the foreseeable future, although Covid-19 is expected to create significant financial challenges over the next five financial years to 2025/26.

Increased levels of demand coupled with increasing costs and reductions in government funding will continue to place a strain on the Council's capacity to deliver services at current levels. The Council has established a Budget Working Group to assist in the identification, development and scrutiny of savings options.

Although a medium-term financial plan is in place it will need to be revised and updated to reflect the longer-term impacts of Covid-19. These changes to the financial plan will need to link with, and support, changes that are being made as a result of service redesign and efficiency plans in light of the current and longer-term impacts of Covid-19.

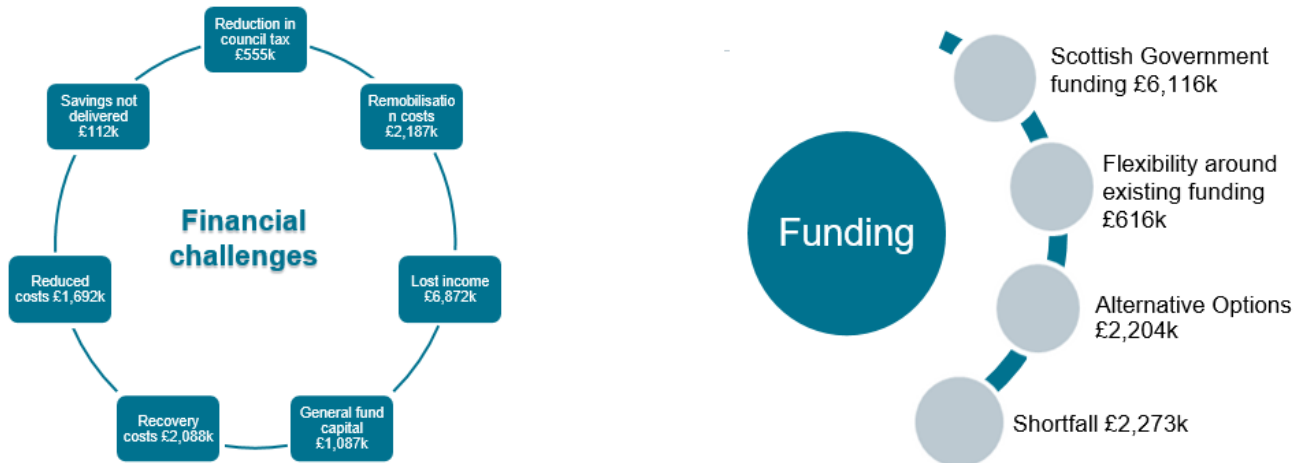
Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered.

### The financial impact of the COVID-19 pandemic will be significant

**61.** The Council approved the 2020/21 budget in February 2020. In May 2020 the Business Continuity Committee received a report on the estimated impact of the Covid-19 pandemic. This report focussed on the first quarter of 2020/21 and estimated the costs to be £4.130 million. A further update was provided to committee in August 2020 which quantified the likely full year financial impact. In quantifying these costs, a number of assumptions have been made in relation to additional costs, lost income and the pace of service recovery. The report estimated a full year cost of £12.176 million arising from the pandemic.

**62.** [Exhibit 5](#) highlights the financial challenges identified by the Council arising from the Covid-19 pandemic as well as the funding sources and resulting shortfall. A cross party working group has been established and is considering options. The group are obtaining further details around the lost income scheme and possible financial flexibilities to inform their work. [Appendix 3](#) outlines the significant elements of the financial challenges at October 2020 as reported to the Policy and Resources committee. The Council will need to make decisions around other options available that could be applied to fund the Covid-19 shortfall of £2.273 million.

## Exhibit 5 Financial challenges and funding



Source: Argyll and Bute Council 2019/20

## Medium and longer term financial plans are in place but will have to be updated to reflect the impact of Covid-19

**63.** 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 that forecast the impact of relevant pressures on the Council.

**64.** The BVAR noted that the Council has good financial planning arrangements in place based around its medium to long term financial strategy 2018/19 to 2027/28 which was approved in 2017. The strategy includes forecasts for revenue, capital and treasury management and details of plans to mitigate future budget gaps. The underlying principles previously agreed by the Council provide a flexible framework within which the Council can react to changing financial challenges.

**65.** The Council estimates that there will be a budget gap of between £9.464 million (most optimistic) and £46.386 million (most pessimistic) over the five-year period 2021/22 to 2025/26. These projections are largely as a result of an assumed drop in funding from the Scottish Government and increased costs as a result of pay inflation. These financial pressures will require the Council to make difficult decisions in the future around service design and delivery.

**66.** The Council has established a cross party Budget Working Group as part of the 2021/22 budget process. The group will assist in the identification and development of savings options. The group do not have any decision-making authority but are able to provide scrutiny over options being developed and can report and make recommendations to the Council or Policy and Resources Committee. This is a positive step in refining the Council's approach to developing savings plans and will provide the basis for the development of medium-term savings plans which can be aligned with any larger scale service redesign.

**67.** The Council's medium-term financial plan has not yet been updated to reflect the impact of Covid-19. It is important that the Council updates its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.



## Recommendation 1

**The Council should update its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.**

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### Transformational planning is underway

**68.** The Council established a transformation board in 2017 to increase the pace and scale of transformation and to challenge services to deliver front line savings through four operating principles of cost reduction, income maximisation, service redesign or self-funding.

**69.** In recent years the Council has achieved financial balance largely through cost containment efficiency measures. While this approach has been successful to date it is not sustainable in the long term and the Council will need to make challenging decisions to achieve financial balance in the future.

**70.** As reported within the BVAR the total amount of savings or income generated though these initiatives to date is unclear. While a number of efficiency-saving and income generation plans are in place, progress has been slow. The impact of completed projects has been small-scale and within individual services.

**71.** There is little evidence of any plans for fundamental large-scale transformational service redesign. The location of the Council area limits opportunities to adopt some of the larger scale transformational changes being implemented by other councils in Scotland. However, as referred to in paragraph 51 above, the Council is currently undertaking a themed review of service delivery to identify alternative ways to deliver services in a more efficient manner.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate governance arrangements in place. We recognise that in responding to the Covid-19 pandemic the Council revised its governance arrangements. The new arrangements are appropriate and support good governance and accountability.**

**The Council is open and transparent in the way it conducts its business.**

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

### **The Council has appropriate governance arrangements in place that support decision making, accountability and scrutiny**

**72.** The Council has a committee structure in place which is supported by clear roles for officers and members. The committee structure is supported by a governance framework that includes Standing Orders, a Scheme of Delegation, Codes of Conduct and Financial Regulations. The Council's decision and delegation arrangements, and its organisational structure are reviewed on an annual basis by the full Council.

**73.** Papers provided by officers to support full Council and committee meetings are of a good standard, cover issues in appropriate detail and are provided sufficiently in advance of meetings for members to review in detail.

**74.** . Appropriate time is made available in full Council and Audit and Scrutiny Committee meetings to discuss issues on the agenda in sufficient detail and it is clear that members are well-prepared for the meetings and ask pertinent and probing questions. Relevant officers attend the committee to present reports and to respond to questions from members.

**75.** The Council was able to complete all scheduled 2019/20 meetings of its main governance committees before the full impact of the Covid-19 pandemic.

### **The Council revised its governance arrangements in response to the Covid-19 pandemic. The new arrangements are appropriate and support good governance and accountability**

**76.** The impact of Covid-19 from March 2020 have been set out in the Annual Governance Statement in the Council's annual accounts. These were significant and allowed the Council to manage the unprecedented nature and scale of the threat to its communities and staff. We note that the following steps were taken to allow the Council staff to prioritise their response to the outbreak:

- at a special meeting of the Council on 31 March 2020, it was agreed that all Council meetings including those of the Audit and Scrutiny Committee would be suspended temporarily. A Business Continuity Committee (BCC) was established to exercise all the powers of the Council and this was extended following a review of arrangements at the end of June 2020. Meetings of the

BCC are carried out on a virtual basis. The agenda, minutes and supporting papers of the BCC are readily accessible to the public on the Council's website.

- the Chief Executive was given emergency powers to instruct executive actions during the period of the Covid-19 crisis. This was undertaken in consultation with the Leadership Group (Leader of the Council, Depute Leader and Leader of the opposition Group). This is in line with the Council's Constitution and members believe it will allow urgent decisions to be taken in response to the crisis. All decisions under this arrangement were logged and a formal report on decisions was submitted to the Council meeting on 30 June.
- the BCC and the Council's general governance arrangements were kept under regular review throughout the period and reported to members. The Council agreed at its meeting on 24 September that all Committee meetings will continue on a virtual basis with a further review of the operation of Committees to be undertaken and reported to Council in April 2021. The BCC was suspended meantime with the ability to be recalled should that be required.

**77.** We concluded that the new governance arrangements introduced by the Council in response to Covid-19 are appropriate and support good governance and accountability.

### **Elected member relationships have improved significantly, resulting in constructive and more focused decision-making**

**78.** Relationships between officers and elected members are positive and constructive. Since our last Best Value report in 2015, relationships between elected members have improved significantly including the relationship between the administration and the opposition groups. The current political set-up is productive and collegiate, with elected members committed to working together to improve Argyll and Bute for the benefit of their communities.

**79.** Councillor Aileen Morton, former Leader of Argyll and Bute Council, intimated her intention to step down from her current office effective at the Council meeting on 24 September. The Council Constitution required the Council to give consideration to filling the vacancy at that meeting and the appointment of the new Leader of Argyll and Bute Council, Councillor Robin Currie, was confirmed.

### **Councillors need to take advantage of the training opportunities available to ensure they remain an effective elected member**

**80.** The Council provides a good level of training for members, with courses taking place throughout the year covering a range of topics relevant to their roles and linked to the Council priorities. The Council has also put in place arrangements to support members' continuing professional development.

**81.** Our BVAR highlighted that member attendance at training courses has been mixed, with a 55 per cent attendance rate over the last 18 months. During this period, ten members attended two or fewer training sessions.

**82.** Our report recommended that further action is required by elected members to review their individual training requirements with a view to agreeing tailored personal development plans to ensure that they deliver, and are able to respond to the demands, challenges and expectations of a modern elected member.

**83.** The Council's Best Value action plan contains various opportunities for Councillors with a reviewed training programme. We will undertake a review of this as part of the 2020/21 audit.

**84.** The recommendation within the BVAR remains more relevant than ever as officers and elected members adapt to the additional financial and governance challenges resulting from Covid-19. The Council has provided online training during Covid-19 with good levels of attendance.

**85.** The Council needs to ensure the training provided continues to be reviewed to reflect new ways of working, is flexible and can adapt to provide the necessary resources and support for members to access and complete training.

### **The Council is open and transparent in the way it conducts its business**

**86.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**87.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**88.** There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full Council, the Audit and Scrutiny Committee and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website which is easy to navigate.

**89.** The Council's website allows the public to access a wide range of information including the register of members' interests. The '*Have your say*' section of the website provides details on how to make a complaint and how to use social media (e.g. Facebook and twitter) to access information about the council's decision-making processes. Additionally, the Council is proactive in encouraging the public to get involved and welcomes suggestions about how services could be made more efficient and effective.

### **Internal audit operates in accordance with Public Sector Internal Audit Standards**

**90.** A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. We carry out an annual assessment of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS). These standards apply to all internal audit service providers and cover a range of issues such as planning, risk assessment, audit documentation, reporting and quality monitoring. Our review concluded that internal audit operates in accordance with PSIAS.

**91.** In terms of International Standard on auditing we reviewed internal audit work on controls within financial systems. Our review found the work to be of a good quality with testing and audit findings documented clearly. We concluded that we could use the work of internal audit in a number of areas as set out [Exhibit 6](#).

#### **Exhibit 6 Use of internal auditors' work**



Non- Domestic rates



Council tax

✓ Payroll	✓ General Ledger
✓ Receipts and banking	✓ Accounts payable
✓ Accounts receivable (debtors)	✓ Treasury Management

**92.** The Annual Governance Statement, within the Council's annual accounts, notes that the planned internal audit work for 2019/20 was not completed due to the impact of Covid-19 and the need to redeploy staff to support the Council's response to the pandemic. Six audit assignments were carried forward to 2020/21 to complete but these had no impact on the extent to which we could use internal audit's work. In addition, the deferred audit assignments had no material impact on internal audit's ability to provide their annual opinion for 2019/20.

### The Council is proactive in following-up matches identified by the National Fraud Initiative and reporting findings to the Audit and Scrutiny Committee

**93.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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 irregularity.

**94.** NFI activity is summarised in Exhibit 7. Our latest review of the NFI process at the Council was completed in February 2020, and no issues were identified.

## Exhibit 7

### NFI activity



5910

Matches



576

High Risk



823

Completed/closed investigations

Source: Argyll and Bute Council; Internal Audit

**95.** The Council actively reviews and investigates data matches with findings reported to the Audit and Scrutiny Committee.

**96.** The Council uses a number of other agencies to provide data matches in high risk areas. For example, the Revenues Section use Datatank to highlight potential single person discount fraud. The Accounts Payable Section use an external agency, Fiscal Technologies, to highlight duplicate supplier payments for further investigation.

## **The Council has appropriate arrangements in place to maintain standards of conduct and for the prevention and detection of fraud and error**

**97.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, an anti-money laundering procedure, anti-fraud strategy and codes of conduct for members and officers.

### **Good practice points**

**98.** Elected members demonstrate a good understanding of the issues the Council faces. The Council has a policy lead structure where members of the administration have responsibility for different areas of Council operations and objectives. Policy leads provide verbal updates at Council meetings and take questions on their areas of responsibility. The format and operation of the policy lead structure helps promote discussion on key issues and member accountability for the delivery of council priorities.



# Part 5

## Best Value



### Main judgements

The Best Value Assurance Report (BVAR) report recognises the progress the Council had made since the previous Best Value audit in 2015. The BVAR also highlighted improvements are still required for the Council to be able to demonstrate it is achieving all aspects of Best Value.

In response to our BVAR the Council has developed a BVAR improvement plan which was presented to the full Council together with a commitment to provide six monthly updates on progress. We will follow up progress against the improvement plan in our 2020/21 audit.

A key finding from our BVAR was the opportunity for the Council to make improvements to its performance reporting and use benchmarking performance information to drive continuous improvement.

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

### The Best Value Assurance Report (BVAR) report recognises the progress the Council has made since the Best Value Report in 2015

**99.** Best value is 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.

**100.** During 2019/20 we undertook a review of best value within the Council. The findings from this review were reported in the BVAR for Argyll and Bute Council which was published on 21 May 2020. Within this we highlighted the following key messages:

- Since the 2015 Best Value report, the Council has worked hard to improve relationships among elected members and senior officers. There has been a significant improvement in the culture resulting in constructive and more focused decision-making. Members now need to build on this and make the difficult decisions required to sustain council services in the longer term.
- The Council and its partners share a strong commitment to the vision for Argyll and Bute. The Council and its partners recognise the challenges, which includes a declining and ageing population, varied geography and population density, declining funding, and a growing economic dependence on the public sector.
- The Council is not yet in a position to demonstrate that it is achieving all aspects of Best Value. In some key areas the pace of improvement has been slow since the previous Best Value report in 2015. There is limited evidence of the Council using performance information to drive improvement. The Council's performance reporting makes it difficult to conclude what progress has been made against its six corporate outcomes.

- Since 2014/15, the pace of improvement against LGBF indicators has been slower than in other councils in Scotland. The percentage of indicators in the top two quartiles increased, but around one-third of indicators are in the bottom quartile every year.
- The Council's annual budget process and savings plans have successfully achieved financial balance through a focus on cost reductions. Although the Council's transformation programme has delivered some efficiencies and achieved small-scale savings further work is required by the Council to better align its financial and transformation plans to drive meaningful change through new and innovative ways of working.
- There have been a number of changes in the management structure during 2019, including the appointment of the new chief executive in December 2019. The changes to the senior management structure have been made in line with the council's vision, and to help support the delivery of the council's corporate outcomes. The restructuring has resulted in a loss of experience at a time of challenging priorities and decreasing resources.
- In addition to reducing employee numbers, the Council makes extensive use of temporary contracts (20 per cent of the workforce). The 2018 employee survey highlighted issues with lines of communication from senior management. The Council could do more to ensure it communicates and engages effectively with all staff.
- The Council works well with partners including the third sector, youth groups, area community planning groups and business partners. The Council needs to maximise its influences with key partners in delivering its vision, in terms of economic development, relevant business skills, opportunities for learners and the Argyll and Bute Rural Growth Deal.
- The Council has made progress with the Community Empowerment Act, but it needs to make its processes easier to follow and accessible to all communities. Although there has been significant consultation there is scope to improve community engagement to make the approach more inclusive, achieve wider representation and build capacity to enable communities to take more ownership of decision-making.

### **In response to our BVAR the Council has developed a BVAR improvement plan which was presented to the full Council with a commitment to provide six monthly progress updates**

**101.** The BVAR contained seven recommendations for Argyll and Bute Council to take forward. A BVAR improvement action plan has been developed by the Council. This contains specific action points, measures to gauge success in achieving outcomes; key dates for implementation and lead responsibilities to address the recommendations in the BVAR.

**102.** The improvement action plan was presented to the Council on 30 June 2020, together with a commitment to provide six monthly updates on progress. The Council also intend to provide an update to the Audit and Scrutiny Committee in early 2021 as part of its scrutiny role. We will continue to monitor the council's progress against the improvement actions and will report progress in our 2020/21 annual audit report.

### **The Council's performance reporting makes it difficult to conclude what progress has been made against its six corporate outcomes**

**103.** The BVAR noted that the quality of the Council's performance reporting is mixed. The Council's annual performance report provides a high-level summary of the current position of specific projects and some data under each of the six

corporate outcomes. It does not provide a balanced picture of long-term trends in performance against targets or benchmarks.

**104.** The BVAR concluded that the Council's performance reporting does not provide information in an effective, systematic way to allow elected members to recognise areas of good practice or to challenge areas of poor performance.

### **The public facing performance reports do not provide a clear picture of how well the Council is performing**

**105.** 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.

**106.** The BVAR noted that while all staff and elected members can interrogate performance data in the Council's intranet-based performance management system, the public have no opportunity to do so. Instead they must rely on committee reports and annual high-level summaries.

**107.** The Council recognises the need to improve public performance reporting. Improvements have already been made to the Council website which makes it easier to navigate the performance reports, service plans and improvement activities. However, further improvements can be achieved by defining a single space on the Council's website where the public can view trends in satisfaction, service quality or performance against individual success measures and projects that underpin the corporate outcomes.

### **The Council is making improvements to its performance management framework**

**108.** The Council recognises that its performance management system is not user-friendly. The system contains a large number of historical indicators that are no longer relevant to the council's corporate outcomes. The Council is continuing to improve its approach to performance management and has established a project team to take forward improvements. This includes:

- developing a suite of outcome-focused 'impact measures' to improve measurement of long-term progress against the 17 business outcomes. This will include key indicators from the Local Government Benchmarking Framework, the CPP and other national statistics
- continuing to develop more effective scrutiny by training members and officers in the use of the performance management system
- improving public performance reporting, including the exploration of alternative performance management systems and report structures
- exploring alternative and simpler systems for presenting performance information.

**109.** As the Council develops its approach to performance management, the number of success measures, benchmarks and targets is changing every year. Our BVAR report highlighted there is a risk that the Council is unable to report consistent trend information for its success measures.

### **The Council needs to use benchmarking performance information needs to drive continuous improvement**

**110.** The Local Government Benchmark Framework (LGBF) is a national dataset that allows all Scottish councils to compare their performance relative to other

councils for 79 indicators across a range of services. As the Council does not have any housing stock, the five LGBF indicators for housing do not apply.

**111.** As part of the BVAR we reviewed the how the Council used the LGBF to help improve performance. Since 2016/17 the Council has presented its own analysis of LGBF indicators to its audit and scrutiny committee. In 2017/18 relevant sections were also presented to strategic committees. The analysis highlights key measures that are important to the Council, and includes trend information, comparisons with family groups and a supporting narrative for each indicator.

**112.** Of the 74 indicators it analysed, 43 (58 per cent) were in the top two quartiles when ranked against all other Scottish councils. While the report identified 24 indicators that are of particular interest to the Council, there is no evidence of the Council using this analysis to drive improvement activity.

### **The Council has appropriate arrangements in place for considering and reviewing National performance audit reports**

**113.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

**114.** National performance audit reports are considered and reviewed by the relevant council committee and decide what action if any is required locally.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial Sustainability</b></p> <p>The Covid-19 pandemic has introduced further financial challenges with a projected funding gap of up to £60 million.</p> <p><b>Risk</b> – The Council may not be able to deal with future financial challenges and deliver required savings without adversely impacting service delivery.</p>	<p>1. Update the MTFP to reflect the impacts of Covid-19 at the earliest appropriate opportunity.</p> <p>2. Work with key partners to identify opportunities to deliver service transformation.</p> <p><a href="#">Paragraph 67</a></p>	<p>1. The Council will revise its financial strategy to reflect the current financial climate and future financial projections. This will be presented to full Council for approval in February 2021. It will be further revised after the 2022 local government elections to ensure it is aligned to the Council's priorities'.</p> <p>2. Work is underway to deliver savings through service redesign which will help deliver a balanced budget in 2021/22 and beyond'</p> <p><b>Responsible officer:</b> Section 95 officer.</p> <p><b>Agreed Date:</b> 28 Feb 2021</p>

### Follow up of prior year recommendations

2	<p><b>Financial Strategy</b></p> <p>The current medium to long term financial strategy does not contain detailed financial plans beyond 3 years.</p> <p><b>Risk:</b> that the impact of changes in funding or expenditure scenarios beyond three years are not fully taken into account across all aspects of the Council's activities.</p>	<p>The Council should enhance its long-term strategy when it is reviewed. In particular it should consider providing detailed financial plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an analysis of levels of service demand.</p>	<p><b>In progress</b></p> <p>Revised action: <a href="#">Action Plan point 1</a></p>
3	<p><b>Financial Sustainability</b></p> <p>The Council is forecasting significant funding gaps for the three years 2020/21 to</p>	<p>The Council should continue to develop its savings plans, and any other initiatives, to address the significant funding</p>	<p><b>In progress</b></p> <p>Revised action: <a href="#">Action Plan point 1</a></p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>2022/23, which have still to be addressed by identified savings.</p> <p><b>Risk:</b> that savings or other measures to bridge the forecast funding gaps may not be identified.</p>	<p>gaps forecast for the three years 2020/21 to 2022/23.</p>	
4	<p><b>Performance Reporting</b></p> <p>It is difficult to connect service plan performance reports to corporate outcomes and the Corporate Plan, as service reporting only references related business outcomes.</p> <p>There is a risk that the link between service performance and the Corporate Plan is not sufficiently transparent.</p>	<p>The Council should consider developing clearer links between service area performance reporting and the corporate outcomes contained in the Corporate Plan.</p>	<p><b>In progress</b></p> <p><b>Revised action:</b> A project team has been established to review the Council's approach to performance management and reporting.</p> <p><b>Responsible Officer</b> – Head of Customer Support Services</p> <p><b>Agreed Date:</b> 31 March 2022</p>
5	<p><b>Performance Reporting</b></p> <p>The provision within the six-monthly performance reporting process for feedback and comment from the Audit and Scrutiny Committee is not being utilised.</p> <p>There is a risk that the six-monthly performance reports are not subject to adequate scrutiny on behalf of the full Council.</p>	<p>Formal feedback from the Audit and Scrutiny Committee on the Council's six-monthly performance report should be built into the ASC's workplan.</p>	<p><b>In progress</b></p> <p>Revised action: <a href="#">Action Plan point 4</a></p>

# 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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

### Risks of material misstatement in the financial statements

#### 1 Management override of controls

Auditing Standards require that audit work is planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to fraudulently misrepresent the position disclosed in the financial statements.

- Detailed testing of journal entries focussing on authorisation and approval.
- Review of accounting estimates and evaluation of the impact of any variability in key assumptions.
- Focussed testing of accruals and prepayments.
- Evaluation of significant transactions that are outside the normal course of business.
- Year-end cut-off testing.

**Results:** No unusual or inappropriate transactions were identified as part of our detailed journal testing.

A review of accounting estimates did not show any evidence of bias.

Focussed testing on accruals and prepayments did not identify any instances of management override of controls.

Within substantive testing we considered whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transaction listings that were outside the normal course of business.

Substantive testing of transactions around the year end identified controls were operating effectively.

**Conclusion:** we did not identify any incidents of management override of controls.

#### 2 Fraud in expenditure

As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

The Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of

- Testing to obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Analytical procedures on expenditure transactions.
- Year-end cut-off testing.

**Results:** Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.

Identified and reviewed significant variances within expenditure.

Substantive testing of transactions around the year end did not identify any issues with classification of expenditure relating to the financial year 2019/20.



expenditure to achieve a desired financial position.

**Conclusion:** we did not identify any incidents of fraud over expenditure.

### 3 Estimation and judgements

There is a significant degree of subjectivity in the measurement or valuation of the following material account areas:

- Non-current asset valuations are significant estimates, based on specialist and management assumptions
- Provisions (including equal pay claims)
- Pension liabilities: The council's share of the Strathclyde Pension Fund net liability at 31 March 2019 was £113.768 million. This value is an estimate based on a number of assumptions
- Loans fund repayments / borrowings: loans fund advance repayments are being rescheduled based on an average useful life for underlying assets, rather than on actual useful lives for the specific assets. The results from applying the revised basis are revenue savings of c £2.5million per annum for the ten years from 2019/20, and a one off reprofiling gain of £20.5 million.

The subjectivity of each of these areas of estimation or judgement presents an increased risk of misstatement in the financial statements.

- Completion of review of the work of management's expert' for the internal professional valuer.
- Review of revaluations carried out, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals.
- Confirm non-current asset revaluations in surveyor's report are correctly reflected within the 2019/20 accounts.
- Work to assess the reasonableness of the valuations in the surveyor's report.
- Completion of review of the work of management's expert' for actuary.
- Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.
- Review and assess the reasonableness of actuary's valuations and assumptions.
- Assess the reasonableness of judgements and estimates applied in rescheduling loans fund advance repayments.

**Results:** Completed a review of the work of management's expert for the internal professional valuer.

Substantively reviewed a sample of asset revaluations and confirmed that the appropriate valuation basis/methodology has been applied.

Substantive testing concluded that provisions had been accounted for appropriately.

Confirmed that the non-current asset revaluations are correctly reflected in the 2019/20 accounts.

Completed a review of the work of management's expert for the actuary.

Confirmed that the pension valuations in the actuarial reports are correctly reflected in the 2019/20 accounts.

Reviewed the judgements and estimates applied in rescheduling loans fund advance repayments for reasonableness.

**Conclusion:** the measurement and valuation of non-current assets, provisions, pension liabilities and loans fund repayments/borrowing included in the financial statements are reasonable and supported by evidence.

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

### 4 Financial sustainability-budget gap

Councils continue to face significant financial challenges with pressures on funding and increasing demand for services.

As at February 2020, the Council's budget estimates are for a mid-range budget gap of £5.014 million for 2021/22, rising

- Review of the council's annual budget setting arrangements.
- Assessment of the council's medium to long term financial strategy.
- Review and assessment of budget monitoring arrangements with a focus on reports to senior officers

**Results:** The audit team reviewed the council's annual budget setting arrangements.

The audit team reviewed financial updates to council and other committees throughout the year, this included reviewing the financial position and delivery of planned savings.



to £12.907 million by end of 2022/23, with a balanced budget position for 2020/21, after recognition of all agreed, and estimated, measures available. Beyond this there remain significant budget gaps in future years.

This represents a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision.

and members on financial position.

- On-going review of the council's financial position and delivery of planned savings.

**Conclusion:** The Council achieved a year end surplus of £0.502 million in 2019/20. Significant financial challenges will continue in the short to medium term and this have been highlighted at [Appendix 1 Action Plan Point 1](#).

## 5 Financial sustainability-savings plans

As at February 2020, a potential shortfall in savings, planned for 2019/20, of £0.555m had been identified.

There is a risk that future planned savings and budget balance will become increasingly more difficult to deliver.

- Appraise savings plans and assess whether they are realistic and achievable.
- Comment on progress in delivering identified operational and policy savings options.

**Results:** The audit team reviewed savings updates presented to committees.

Reviewed the year-end financial position. The financial gap was addressed largely from savings achieved but there was an element of departmental underspends utilised.

**Conclusion:** The Council achieved a year end surplus of £0.502 million in 2019/20. Significant financial challenges will continue in the short to medium term and this have been highlighted at [Appendix 1 Action Plan Point 1](#).

## 6 Financial management – impact of Integration Joint Board overspends

The most recent budget monitoring report to members in February 2020 shows a projected overspend of £1.310 million for social work services commissioned by Argyll and Bute Integration Joint Board (IJB).

The latest IJB financial recovery plan has identified further savings options, however, it still seems likely that the outturn noted above will not be significantly improved by year end.

There is a risk that services cannot continue to be fully provided on behalf of the IJB within the council's budget, without adverse impact on Council General Fund contingency reserves.

- Review and assess recovery actions being taken by the Council to reduce overspends within Social Services.

**Results:** We noted regular reporting on the HSCP projected overspend to Committee throughout 2019/20.

At the end of 2019, the Chief Officer of the HSCP provided written assurance that emergency financial controls had been implemented at the HSCP and that additional measures were being put in place to restrict spending and assist in the delivery of savings.

**Conclusion:** More robust spending controls and improved financial monitoring and reporting has been introduced for the Council's Social Work Services. A more fundamental shift in funding/expenditure may be necessary to provide ongoing financial stability.

## 7 Governance – Internal Auditor independence

From January 2020, until potentially end of June 2020, the Chief Internal Auditor (CIA) has taken on some of the responsibilities of the Head of Financial Services, who is acting as Executive Director on an interim basis.

There is a risk of the CIA's independence being compromised by these arrangements, and of the Internal Audit Plan 2019/20 not being completed.

Review and assess practical operation of the arrangements put in place to mitigate risk to CIA independence.

**Results:** The audit team discussed the measures in place, both individually and collectively, with the S95 Officer, Chief Internal Auditor and senior finance managers. We assessed the measures and obtained assurance that these have not resulted in any significant difficulties or conflicts to date.

We did not identify any apparent conflicts of interest requiring any mitigating actions to be taken.

From our attendance at the Audit and Scrutiny Committee and from review of minutes from the Business Continuity Committee, we have confirmed that effective financial management has continued and that the Internal Audit Plan was on track for completion by the year end, but for the onset of Covid 19.

**Conclusion:** The interim arrangements established have operated effectively and have had no impact on the independence of the Chief Internal Auditor, nor on the completion of the 2019/20 Internal Audit Plan.”

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# Appendix 3

## Financial challenges

### Financial challenges

Financial challenge	£,000	Significant elements	£,000
Mobilisation costs	2,187	Community Food Project	873
		Homeless Accommodation	680
		Providing ELC to key workers	328
		Additional Free School Meals	92
Lost income	6,872	Piers and Harbours	2,300
		Waste Collection	986
		Parking Fees and Fines	929
		School Food and Drink	624
		Planning Fees	560
		Ferry Services	336
		Previously agreed income savings	618
General fund capital	1,087	Expenditure normally recharged to capital	830
		Project contract inflation due to delay	257
Recovery costs	2,088	Education including additional teachers, transport reconfiguration, cleaning and digital technology	1,612
		Waste and Environment	258
		Offices	119
Reduced costs	1,692	Waste Costs including recycling, landfill tax and PPP charges	540
		Closure of buildings	296
		Reduced Travel	295
		Lower Provision of School Meals	270
Reduction in council tax collection	555	Equivalent to 1% reduction in collections.	
Savings not delivered	112		

Source: Argyll and Bute Council, Policy and Resources committee October 2020

# Appendix 4

## Summary of national performance reports 2019/20



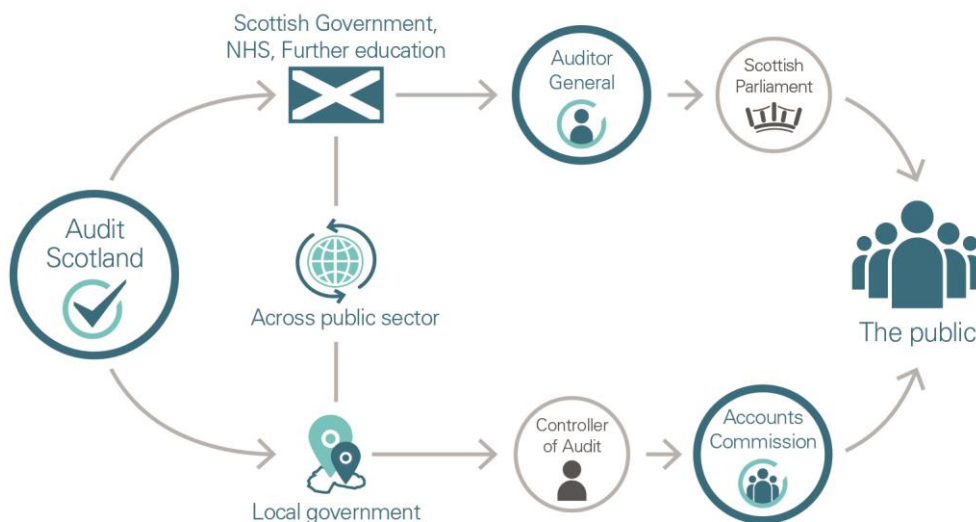
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

# Appendix 5

## 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.

# Argyll and Bute Council

## 2019/20 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)