

Argyll & Bute Council

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

November 2022

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Key messages

2021/22 annual accounts

- 1** The Covid-19 pandemic has continued to create additional challenges for Council and audit staff alike. As a result of this, the statutory deadline to publish the audited 2021/22 annual accounts was revised to 30 November 2022.
- 2** The Council prepared its annual accounts for the year within agreed timescales and the accounts and associated working papers have been prepared to a high standard.
- 3** We requested that management carried out an additional assessment of the high value assets that were not due to be valued in the current financial year as part of the 5-year rolling programme of revaluations. As a result of this work, the estimated value of non-current assets increased by £29.9 million. There was no impact on the Council's general fund.
- 4** Following the adjustment to the value of non-current assets, our audit opinions on the annual accounts of the Council and its group are unmodified and confirm that the 2021/22 Financial Statements present a true and fair view of the financial activities of the Council and its group. Similarly, our audit opinion on the eight section 106 charities administered by the Council are unmodified.

Financial management

- 5** The Council reported a surplus of £1.6 million after adjusting for transfers to earmarked reserves. This was as a result of underspends at departmental level, in addition to an overall favourable recovery of Council Tax.
- 6** There has been a significant increase in the level of General Fund reserves. Overall, earmarked reserves increased by £17.8 million. The majority of this increase largely related to the timing of Scottish Government funding that was unspent at the year-end.
- 7** The Council has appropriate and effective financial management in place that allow members to scrutinise financial performance effectively.

Financial sustainability

- 8** Medium-term financial plans have been developed for the period 2023/24 to 2027/28 and the Council has identified a cumulative budget deficit of £33.0

million over this period. As part of its financial planning, the Council continues to explore savings proposals and service redesign options.

- 9** The Council should continue to review and update its medium-term financial plan as the financial consequences of Covid-19 and the cost-of-living pressures become fully determined.

Governance and transparency

- 10** The Council has appropriate governance arrangements in place. We recognise that in responding to the Covid-19 pandemic, the Council has continued to revise its governance arrangements. The new arrangements are appropriate and support good governance and accountability.
- 11** There is effective scrutiny, challenge and informed decision making.

Best Value

- 12** The Council has an appropriate and effective best value framework in place.
- 13** The Council continues to make positive progress addressing the recommendations contained in our May 2020 Best Value Assurance Report.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Argyll & Bute Council (the Council) and its group.

2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the March 2022 meeting of the Audit and Scrutiny Committee. 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](#) namely, financial management, financial sustainability, governance and transparency and best value.

3. The main elements of our audit work in 2021/22 have been:

- an audit of the annual accounts of the Council and its group including 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
- consideration of the four audit dimensions.

4. The global coronavirus pandemic has had a considerable impact on the Council during 2021/22. This has had significant implications for the services it delivers. We have continued to adapt the way we deliver our audit work to maintain quality and address any additional risks.

Adding value through the audit

5. We add value to the Council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.

Responsibilities and reporting

6. 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.

7. The Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

8. 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.

9. 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.

10. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. 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.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting 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

13. 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.

14. 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 2021/22 audit fee of £272,110 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. 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 in due course.

Audit appointment from 2022/23

16. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

17. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, Mazars will be the appointed auditor for Argyll & Bute Council. We are working closely with the new auditors to ensure a well-managed transition.

18. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

19. We would like to thank Board members, Audit and Scrutiny Committee members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The Covid-19 pandemic has continued to create additional challenges for Council and audit staff alike. As a result of this, the statutory deadline to publish the audited 2021/22 annual accounts was revised to 30 November 2022.

The Council prepared its annual accounts for the year within agreed timescales and the accounts and associated working papers have been prepared to a high standard.

We requested that management carried out an additional assessment of the high value assets that were not due to be valued in the current financial year as part of the 5-year rolling programme of revaluations. As a result of this work, the estimated value of non-current assets increased by £29.9 million. There was no impact on the Council's general fund.

Following the adjustment to the value of non-current assets, our audit opinions on the annual accounts of the Council and its group are unmodified and confirm that the 2021/22 Financial Statements present a true and fair view of the financial activities of the Council and its group. Similarly, our audit opinion on the eight section 106 charities administered by the Council are also unmodified.

Our audit opinions on the annual accounts are unmodified

20. The accounts for the Council and its group for the year ended 31 March 2022 were approved by the Council on 24 November 2022. As reported in the independent auditor's report:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the Council and its group as at 31 March 2022 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The Covid-19 pandemic had a limited impact on audit evidence

21. Covid-19 presented challenges for the audit of the annual accounts, both for the Council's finance team and our audit team. However, the working papers provided by management to support the accounts were comprehensive and the finance staff continued to deliver their high standards of professionalism and support to the audit team which helped ensure a smooth audit process.

The annual audit accounts were submitted in line with our agreed audit timetable

22. Submission dates for the audited annual accounts for 2019/20 and 2020/21 were deferred in line with the later dates for producing the annual accounts because of the impact of Covid-19. Audit Scotland has set target dates for 2021/22 which transition to more regular timescales. For 2021/22, the submission deadline for the audited annual accounts is 30 November 2022.

23. The unaudited annual accounts were received in line with our agreed audit timetable on 4 July 2022. The annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

Our audit opinions on the eight Section 106 charities were unmodified

24. 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 & Bute Council are sole trustees, irrespective of the size of the charity.

25. 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; and
- trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

26. These were approved by the Council on 24 November 2022 and signed by the statutory deadline of 30 November. Our audit opinions on the eight Section 106 charities are unmodified.

Section 106 charities administered by Argyll and Bute Council

27. Argyll and Bute Council administers eight Section 106 charities and prepares a separate set of annual accounts for each charity. The Charities Accounts (Scotland) Amendment Regulations 2010 permits a single set of accounts for connected charities. These are defined as charities that have ‘common or related purposes, or charities which have common control or unity of administration’.

28. The eight Section 106 charities administered by the Council are considered to meet the connected charities definition.

Recommendation 1

The Council should apply the connected charities provision to reduce the number of annual accounts prepared for its Section 106 charities.

There were no objections raised to the annual accounts

29. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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 date specified in the notice must be at least 14 days after the date that notice is published but cannot be later than 1 July in the year in which the notice is published.

30. The annual accounts were not made available for inspection until 4 July 2022 under the regulations. However, the unaudited annual accounts were reported to Council at its meeting on 30 June 2022 and the committee reports were publicly available. Therefore, the Council were considered to comply with the Local Authority Accounts (Scotland) Regulations 2014.

31. There were no objections to the 2021/22 annual accounts.

Work on assurance statements for the 2020/21 and 2021/22 Whole of Government Accounts has been delayed

32. Whole of Government Accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to submit returns for the preparation of WGA. The returns are consolidated into WGA by HM Treasury. WGA is audited at a UK level by the National Audit Office (NAO), who issue Group Audit Instructions.

33. Appointed auditors in Audit Scotland are required by the Code of Audit Practice, as part of their audit appointment, to examine and report on WGA returns prepared by Scottish audited bodies. Auditors are required to report the results of their examination in an Assurance Statement. The examination and reporting process performed by auditors is therefore described as auditor assurance.

34. Work on the 2020/21 and 2021/22 WGA was delayed at a national level. HM Treasury issued its guidance for preparers on 27 April 2022 and the NAO issued its Group Audit Instructions on 14 July 2022. The OSCAR II system has been open for 2020/21 submissions since April 2022.

35. HM Treasury and the NAO set a date for certified returns of 31 August 2022 which the Scottish Government agreed to for Scottish bodies. The deadline was then subsequently moved to 30 September 2022. Management have completed the submission for the Council and we completed our return on 8 November 2022.

Overall materiality

36. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

37. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

38. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Council revised materiality (£)	Group revised materiality (£)
Overall materiality	6.6 million	6.7 million
Performance materiality	4.6 million	4.7 million
Reporting threshold	250,000	250,000

Source: Audit Scotland

Our work has addressed the risks of material misstatement identified in our Annual Audit Plan

39. [Appendix 2](#) provides a summary of the risks of material misstatement in the annual accounts and any wider audit dimension risks identified in our Annual Audit Plan presented to the Audit and Scrutiny Committee in March 2022. 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.

We have significant findings to report on the audited annual accounts

40. 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.

41. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Property, plant and equipment valuations</p> <p>The Code of Practice on Local Authority Accounting requires authorities to revalue property, plant and equipment with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Property, plant and equipment valuations within the annual accounts are supported by workings from a professional valuer, using a five-year rolling programme of revaluations.</p> <p>In part due to wider external factors (e.g. inflation), the likelihood of a material movement was higher in 2021/22 than in previous years. This was an issue which affected all Local Authorities in Scotland.</p> <p>We requested that management, in consultation with a qualified valuer, carried out an additional assessment of the value of assets that had not been valued in 2021/22. As a result, the estimated value of non-current assets increased by £29.9 million.</p>	<p>This was adjusted in the audited annual account and a disclosure included under the "Assumptions made about the future and other major sources of estimation uncertainty" note to the annual accounts.</p> <p>We recommend that management put in place a process to ensure that an assessment of the value of assets not revalued in year is carried out on an annual basis.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>The impact of this is to increase property, plant and equipment and unusable reserves on the Balance Sheet by £29.9 million.</p> <p>This adjustment also impacted on the notes to the financial statements associated with these areas. There was no impact on the Council's general fund.</p>	
<p>2. Statutory adjustment for the difference between fair value and historic cost depreciation</p> <p>Statutory adjustments are processed in the annual accounts due to differences between accounting requirements and funding requirements. The Statutory Basis for Accounting for and Disclosing Reserves in Scottish Local Government Bodies is mandatory guidance that was issued by LASAAC in May 2021. This guidance made a change to the way the statutory adjustment for the difference between fair value and historic cost depreciation is processed, and from 2020/21 this was to be processed from the revaluation reserve to the general fund instead of the capital adjustment account. The revised approach was not reflected in the Council's annual accounts for 2021/22 which resulted in a misstatement of £3.7 million.</p> <p>The impact of this is to decrease statutory adjustments by £3.7 million with a corresponding increase in adjustments permitted by accounting standards in the Movement in Reserves Statement.</p> <p>This has no impact on the outturn position.</p>	<p>This was adjusted in the audited annual accounts.</p>
<p>3. PPE and Testing Kits</p> <p>National Services Scotland (NSS) has been supplying PPE to Councils and Integration Joint Boards (IJBs) free of charge.</p> <p>For Argyll & Bute Council and Argyll & Bute Integration Joint Board, the total PPE and Testing Kits issued by NSS for 2021/22 equate to £2.1 million. This was accounted for in the 2021/22 unaudited annual accounts as £2.6 million, however this related to the prior year figure.</p> <p>The impact of this is to decrease both other non-departmental costs gross income and gross expenditure on the Comprehensive Income and Expenditure Statement (CIES) by £2.6 million as</p>	<p>This was adjusted in the audited annual accounts.</p>

Issue	Resolution
<p>well as increase both social work gross income and gross expenditure on the CIES by £2.1 million. This has no impact on the outturn position.</p>	
<p>4. IJB Monies</p> <p>The Council accounted for £1.7 million of IJB monies as a creditor on its Balance Sheet relating to the transfer of reserves for unspent funding at the year-end.</p> <p>The initial accounting treatment was to debit gross expenditure and credit trade payables; however, this should have been a debit to gross income with a credit to trade payables.</p> <p>The impact of this is to decrease both gross income and gross expenditure on the CIES by £1.7 million. This has no impact on the outturn position.</p>	<p>This was adjusted in the audited annual accounts.</p>
<p>5. Accrued income</p> <p>Income of £0.4 million relating to Discretionary Housing Payment (DHP) was incorrectly accrued at the year-end.</p> <p>The impact is to decrease both short-term debtors on the Balance Sheet and gross income on the CIES by £0.4 million.</p>	<p>This was adjusted in the audited annual accounts.</p>
<p>6. Charitable Trusts – Oban Common Good Fund – Classification of property, plant and equipment</p> <p>The Oban Swimming Pool was transferred to the Oban Common Good Fund in 1995 but only recognised in the 2013 accounts with an effective transfer date of 1 April 2012. This was last revalued by Argyll and Bute Council on 31 March 2019 on a Depreciation Replacement Costs basis. The original transfer and the revaluation was accounted for as a restricted fund in both 2020/21 and 2021/22.</p> <p>However, following review of the Charities Statement of Recommend Practice (SORP) Financial Reporting Standard (FRS) 102 and the original transfer documentation, there was insufficient evidence to support the classification of a restricted fund. In addition, the revalued amount should have been held separately within a revaluation reserve.</p>	<p>This was adjusted in the audited annual accounts.</p>

Issue	Resolution
<p>The impact of this is to increase unrestricted funds and decrease restricted funds by £4.5 million for 2021/22 and £4.6 million for 2020/21.</p> <p>This has no impact on the total charity funds for the Oban Common Good Fund.</p>	
<p>7. Charitable Trusts – Oban Common Good Fund – Property, plant and equipment valuations</p> <p>The Charities SORP FRS 102 requires charities to revalue property, plant and equipment with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Property, plant and equipment valuations within the annual accounts are supported by workings from a professional valuer, using a five-year rolling programme of revaluations.</p> <p>In part due to wider external factors (e.g. inflation), the likelihood of a material movement was higher in 2021/22 than in previous years.</p> <p>We requested that management, in consultation with a qualified valuer, carried out an additional assessment of the value of assets that had not been valued in 2021/22. As a result, the estimated value of non-current assets increased by £1.4 million.</p> <p>The impact of this is to increase property, plant and equipment and unrestricted funds on the Balance Sheet by £1.4 million and increase other gains and losses on the Statement of Financial Activities (SoFA) by £1.4 million.</p> <p>This adjustment also impacted on the notes to the financial statements associated with these areas.</p>	<p>This was adjusted in the audited annual accounts.</p>

Source: Audit Scotland

Identified misstatements of £40.4 million were adjusted in the annual audited accounts

42. Total misstatements identified were £40.4 million. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error or refer to the completion of further audit procedures where misstatements were not isolated.

43. Adjustments made in the audited annual accounts increased total comprehensive income in the CIES by £29.5 million and increased net assets in the Balance Sheet by 29.5 million.

Other findings

44. Our audit 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.

A statutory override allowing for simplified presentation of infrastructure assets has been applied

45. Across the UK, a technical accounting issue has been identified covering infrastructure assets, which we have considered as part of our audit this year. Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at historical cost in the accounts. These have a net book value of £230.5 million for the Council. A replaced component of an asset has to be derecognised and at some councils the records of additions were not detailed enough to comply with accounting code requirements. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value, accumulated depreciation and potentially the net book value of the assets.

46. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

47. Management considered the detailed records available to support infrastructure additions since 2010 and concluded that the above statutory overrides were appropriate and have amended the infrastructure disclosures in the audited accounts, this is explained at Note 14 of the annual accounts.

Good progress was made on prior year recommendations

48. The Council has made good 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](#).

2. Financial management

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

Main judgements

The Council reported a surplus of £1.6 million after adjusting for transfers to earmarked reserves. This was as a result of underspends at departmental level, in addition to an overall favourable recovery of Council Tax.

There has been a significant increase in the level of General Fund reserves. Overall, earmarked reserves increased by £17.8 million. The majority of this increase related to the timing of Scottish Government funding that was unspent at the year-end.

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

Budget processes were appropriate and effective

49. Senior management and members receive regular and accurate financial information on the Council's performance against budgets. These reports allow officers and members to scrutinise financial performance effectively throughout the year.

The Council reported an in-year surplus of £1.6 million

50. The performance against budget for the financial year 2021/22, after adjusting for transfers to earmarked reserves was an overall underspend of £1.6 million.

51. The final revenue outturn against budget is summarised in [Exhibit 3](#):

Exhibit 3

2021/22 – Final Revenue Budget Outturn

Area	Actual £ million	Budget Adjusted for Earmarking £ million	Variance (Overspend) Underspend £ million
Chief Executive's Unit	5.7	5.7	-
Executive Director (Douglas Hendry)	115.2	115.4	0.2
Executive Director (Kirsty Flanagan)	49.1	49.7	0.6
Total Departmental Expenditure	170.0	170.8	0.8
Joint Boards	1.5	1.5	-
Loans Charges	9.4	9.4	-
Pension Costs	1.8	1.7	(0.1)
Other	9.6	9.3	(0.3)
Total Central Expenditure	22.3	21.9	(0.4)
Social Work	62.9	62.9	-
Total Social Work Expenditure	62.9	62.9	-
Total Expenditure	255.2	255.6	0.4
Total Funding	278.7	277.5	1.2
Underspend			1.6

Source: Argyll and Bute Council 2021/22 Annual Accounts

52. There was an underspend of £0.2 million within the remit of Douglas Hendry (Executive Director – Education, Legal and Regulatory Support and Commercial Services). The main underspends were due to an over recovery of vacancy savings, reduced catering in schools due to less demand as a result of Covid-19 and reduced running costs within Early Learning and Childcare. There was also an underspend in NPDO (Non-Profit Distributing Organisation) and Hub DBFM

(Design, Build, Finance and Maintain) Schools arising from insurance savings and the settlement of historic disputed cost reductions.

53. There was an underspend of £0.6 million within the remit of Kirsty Flanagan (Executive Director – Roads and Infrastructure, Development and Economic Growth and Customer Support Services). The main underspends were due to the over recovery of vacancy savings, additional income within Environmental Health and additional income in housing and planning fee income.

54. There was an overspend of £0.4 million in Central Costs, this was mainly due to insurance costs being higher than budget.

55. There was also a year-end favourable position in relation to Council Tax Income of £1.2 million. Recovery was assisted by £0.5 million of Low Income Pandemic Payments (LIPP) credited directly to Council Tax accounts and therefore improving collection rates.

56. The Social Work budget, managed by the Health and Social Care Partnership (HSCP) was underspent by £1.7 million. This was after accounting for repayment of outstanding debt to the Council of £2.8 million. Therefore, the HSCP cleared the balance of debt owed to the Council to zero in year. The £1.7 million underspend relating to the Social Work budget has been recognised as a creditor on the Council's balance sheet. This has no impact on the Council's outturn position.

Covid-19 continues to have an impact on Council finances

57. The impact on public finances as a result of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

58. As at 31 March 2022, earmarked reserves of £9.0 million relating to Covid-19 funding remained unutilised. This has reduced from £13.5 million since the prior year. The movement in earmarked Covid-19 funding is summarised in [Exhibit 4](#).

Exhibit 4

Covid-19 – Earmarked Reserves at 31 March 2022

	£ million
Earmarked balance at 31 March 2021	13.5
Spend in year	(5.0)
Allocations from funding to capital contract pressures resulting from Covid-19	(9.4)
New General Covid Funding	7.5
New Specific Covid Funding	2.4
Balance on General Fund 31 March 2022	9.0

Source: Argyll and Bute Council 2021/22 Annual Accounts

The general fund balance held by the Council increased from £78.2 million in 2020/21 to £96.1 million in 2021/22

59. One of the key measures of the financial health of a body is the level of reserves held. The general fund balance held by the Council increased from £78.2 million in 2020/21 to £96.1 million in 2021/22. The majority of this increase largely related to the timing of Scottish Government funding that was unspent at the year-end, such as Covid-19 funding and other unspent grants including Local Authority Covid Economic Recovery Fund (LACER), Early Learning and Childcare (ELC) 1,140 hours.

60. The Council reviews the level of its uncommitted general fund balance when setting the budget each year. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget and this amounts to £5.3 million. In addition to this, a further £1.8 million of the general fund balance is unallocated.

61. The remaining £88.9 million of the general fund balance was earmarked for specific purposes approved by the Council.

62. [Exhibit 5](#) shows an analysis of the movement on the general fund balance in 2021/22.

Exhibit 5**Analysis of movement in general fund balance in 2021/22**

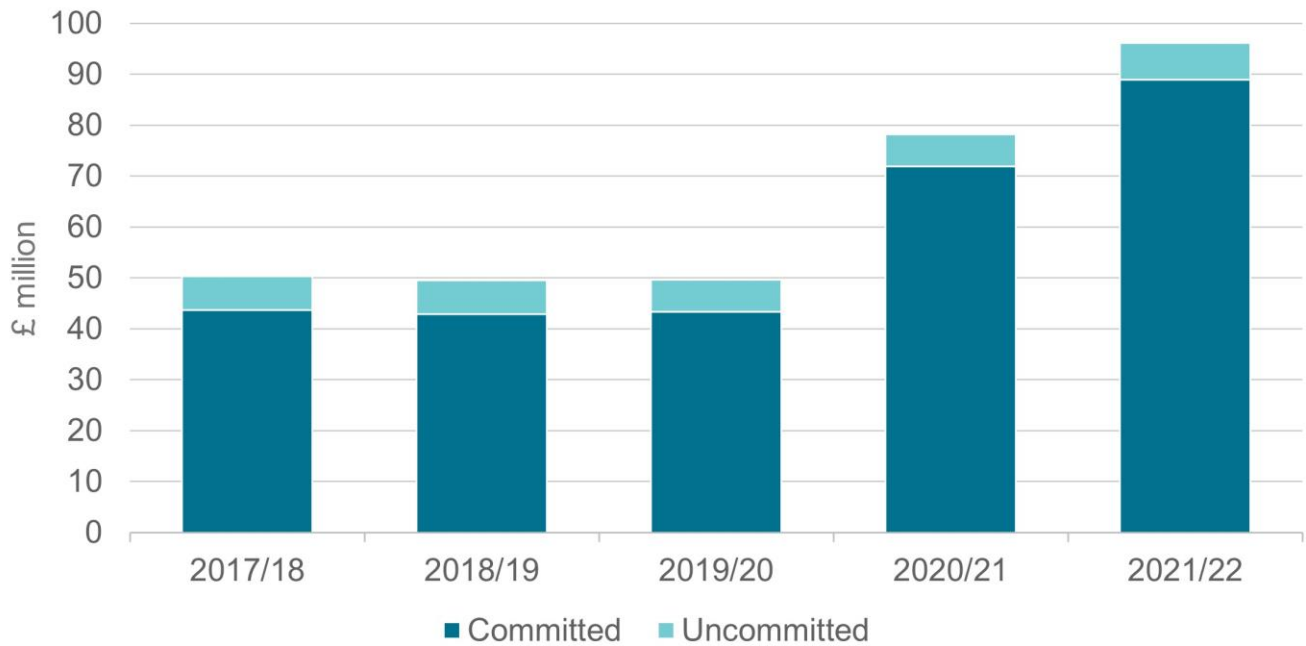
	£ million
Balance on General Fund at 31 March 2021	78.2
Social Work Repayment of Debt	2.8
Revenue Budget 2021/22 - investment in Capital (held in reserves)	3.0
Revenue Budget 2021/22 – Covid Allocation to reserves	7.5
Released sums earmarked to service budgets 2021/22	(18.9)
Contributions to earmarked reserves 2021/22	21.8
Overall budget underspend as noted above	1.6
Balance on General Fund at 31 March 2022	96.1

Source: Argyll and Bute Council 2021/22 Annual Accounts

63. As at 31 March 2022, the largest earmarked balances related to Capital Projects (£24.7 million), Unspent Committed Grants (£12.4 million), Unspent budget carried forward (£10.4 million) and Covid-19 (£9.0 million).

64. [Exhibit 6](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves.

Exhibit 6 Analysis of general fund balance



Source: Argyll and Bute Council Annual Accounts

65. The increased level of the general fund balance in 2020/21 and 2021/22 is largely due to the timing of Scottish Government funding that was unspent at the year-end, such as Covid-19 funding and other unspent grants.

66. The increase in the reserves position in 2021/22 is likely to be temporary due to expected future expenditure on pandemic recovery and other planned expenditure. It is essential that the Council recognises the non-recurring nature of such reserves and takes steps to ensure they are used effectively and in line with Council strategy and strategic objectives.

Planned budget savings were largely achieved

67. The 2021/22 budget included planned savings split across a large number of policies and services. The Council has a history of meeting its savings targets and continued this in 2021/22. Budget savings of £2.7 million were agreed for 2021/22. There were further savings agreed in prior years which had to be delivered in 2021/22 totalling £0.1 million. In total, £2.7 million (96 per cent) of the overall target of £2.8 million was delivered in 2021/22.

68. The remaining shortfall of £0.1 million was met from other service level underspends to contribute to an overall outturn surplus of £1.6 million.

The Council delivered the majority of its capital programme in 2021/22

69. Total capital expenditure in 2021/22 was £24.8 million compared to the annual adjusted budget of £31.0 million. There was slippage of £6.2 million including a number of under and overspends within the outturn position. The largest underspend was £2.5 million relating to the Harbour Investment Programme. There was also an underspend of £0.9 million relating to the Education Asset Sustainability Programme.

70. In total there are 155 projects within the overall Capital Plan. As at 31 March 2022, 94 (61 per cent) of these projects were complete or on track. This position contrasts to 2020/21 where 126 (81%) of 155 projects were complete or on track.

71. In recent years slippage has occurred on a number of projects partly due to the impact of the Covid-19 pandemic. The pandemic has contributed to a number of issues such as supply chain delays, changes to project scope and labour issues.

72. The Council continues to assess and anticipate the impact of the Covid-19 pandemic when monitoring its overall Capital Plan. Project Managers were asked to identify specific Covid-19 impacts on the capital programme. At the budget meeting on 25 February 2021, the Council agreed to provide £2.5 million of funding in respect of this. This was increased by a further £0.1 million following agreement at the Policy and Resources Committee in October 2021.

73. A further £3.9 million was set aside for future capital contract increases as part of the budget which was approved at the meeting of the Council in February 2022.

Financial systems of internal control operated effectively

74. We obtained an understanding of the Council's key financial systems to identify the key financial controls and assess their design and implementation.

75. The majority of Council finance staff switched to remote working during 2020/21 in response to the pandemic and many continued to do so in 2021/22. We noted that, despite the change to the working environment, the underlying processes could be delivered in largely the same way as previously. This is a testament to the dedication of Council staff and the robustness of the processes in place.

76. On the whole, we concluded that financial systems of internal control operated effectively.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

77. The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in

accordance with proper standards of conduct by putting effective arrangements in place. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

78. In addition, we have reviewed the arrangements in place to maintain standards of conduct including the Counter Fraud Strategy and Whistleblowing policy. There are established procedures for preventing and detecting breaches of these standards including instances of corruption.

3. Financial sustainability

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

Main judgements

Medium-term financial plans have been developed for the period 2023/24 to 2027/28 and the Council has identified a cumulative budget deficit of £33.0 million over this period. As part of its financial planning, the Council continues to explore savings proposals and service redesign options.

The Council should continue to review and update its medium-term financial plan as the financial consequences of Covid-19 and the cost-of-living pressures become fully determined.

The Council agreed a balanced budget for 2022/23

79. The Council agreed a balanced 2022/23 budget in February 2022. Measures approved by the Council to achieve a balanced budget with a surplus of £2.8 million included:

- 3% increase to Council Tax amounting to £1.6m.
- General inflationary increase to fees and charges resulting in £0.4 million of additional income
- New management/operational savings of £2.4 million
- New policy savings options of £0.3 million

The Council are forecasting a small overspend of £0.1 million on their revenue budget for 2022/23

80. The most recent financial monitoring reports as at 31 August 2022 were presented to the Policy and Resources Committee in October 2022. As at 31 August 2022, there was a year-to-date underspend of £3.0 million and a forecast year-end overspend of £0.1 million. The forecast overspend does not include the potential overspend in relation to the 2022-23 pay award where negotiations are ongoing.

81. The year-to-date variances mainly relate to the timing of income and expenditure and the recharging of costs to capital. The forecast overspend is

due to the elected members pay award, an under recovery of income within parks and pest control and a high demand for services within social work.

The Council has continued to monitor the impact of Covid-19 on its financial position

82. The Council monitored the impact of Covid-19 on its financial position throughout 2021/22. This included forecasting the impact the pandemic would have in the future based on a range of assumptions and the information available at the time. Assumptions were regularly reviewed as national restrictions changed and impact on costs and lost income became clearer.

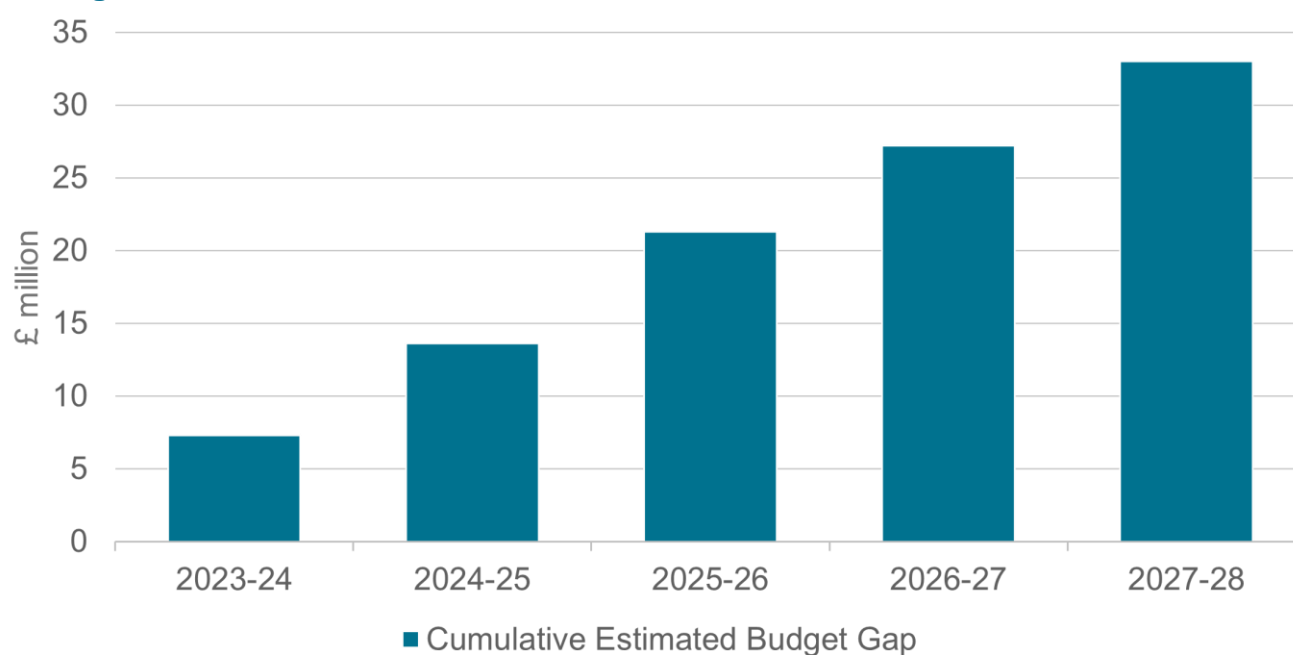
83. Detailed reports were presented to the Policy and Resources Committee at its meetings in October 2021 and December 2021. A further update was presented to the Policy and Resources Committee in February 2022. Officers continue to review their revenue budget estimates for 2022/23 pressures resulting from Covid-19 to reflect the most up to date outturn.

84. The Council are experiencing increases in prices for capital works. This is due to issues such as supply chain disruption for both labour and materials. The Council have estimated that pressures will continue for the projects within the capital programme in 2022/23 and beyond. As part of the 2022/23 budget, £3.9 million of the available Covid-19 funding was allocated for capital contract increases.

Addressing the £33.0 million funding gap identified by the Council over the medium-term presents a significant challenge

85. The Council produces a five-year rolling financial plan (Budget Outlook 2023/24 to 2027/28). This plan is a 'live' document and is revised each year following the agreement of the budget and is then further updated throughout the year as new information becomes available. The most up to date version of this plan was presented to the Policy and Resources Committee in October 2022.

86. The budget outlook is prepared using three different scenarios, best case, worst case, and mid-range. The budget gap in the mid-range scenario after measures to balance the budget is an estimated £7.3 million in 2023/24 rising to £33.0 million over the five-year period (2023/24 to 2027/28). This has been summarised in [Exhibit 7](#).

Exhibit 7**Cumulative Estimated Budget Gap 2023/24 – 2027/28****Mid-range scenario**

Source: Argyll and Bute Council

87. The Council face a very challenging budget outlook position over the five-year period 2023/24 to 2027/28. The level of Scottish Government grant, the pay award and the cost of inflation are assumptions that could alter the figures in the budget outlook significantly. The Council continue to monitor these assumptions closely and update the budget outlook throughout the year.

88. Council officers continue to develop further savings options throughout 2022/23. These saving options will be presented to members at a future Committee in order to help to provide a balanced budget in future years. The Council should continue to review and update its medium-term financial plan as the financial consequences of Covid-19 and the cost-of-living pressures become fully determined.

Recommendation 3

The Council should continue review and update its medium-term financial plan as the financial consequences of Covid-19 and the cost-of-living pressures become fully determined.

A Budget Working Group has been established to provide scrutiny on the identification of savings options as they are developed

89. As part of the 2021/22 and 2022/23 budget processes, a cross party Budget Working Group (BWG) was established. This comprised of six members from the administration, three members from the opposition and two trade union representatives. The primary purpose of the BWG was to engage with officers and provide scrutiny on the identification of savings options as they are developed.

90. It was agreed at the Policy and Resources Committee in June 2022 that a similar group will be established to support the 2023/24 budget approach and the group began discussions in August 2022 in order to address the financial challenges ahead.

The Council have commenced work on a budget approach for 2023/24

91. A paper was taken to the Policy and Resources Committee in October 2022, updating on the budget approach for 2023/24. The two main aspects of this work are:

- A review of services considering whether it's a duty, power or non-statutory service.
- A service redesign exercise assuming 75% of existing budget.

92. Officers continue to monitor the budget outlook position regularly and report any changes to the Policy and Resources Committee. The 'Budget Approach' exercise has been developed by Executive Leadership Team.

93. The Council continues to face a significant and challenging budget gap over the next five years. As part of its financial planning, the Council continues to explore savings proposals, service redesign options and opportunities for additional income.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

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

There is effective scrutiny, challenge and informed decision making.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

94. The Council made changes to its governance arrangements at the outset of the pandemic in March 2020. These have been set out in the Annual Governance Statement contained in the annual accounts and included:

- Council and committee meetings continued to operate on a virtual basis throughout the Covid-19 pandemic
- Recording meetings of the Council and hosting these for the public on the Council's website. This has now progressed to webcasting for strategic committees with the first webcast meeting being the Policy and Resources Committee broadcast in December 2021.

95. We concluded that overall, the Council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

Internal Audit

96. A revision to the 2021/22 Internal Audit Plan was approved by the Audit and Scrutiny Committee in March 2022. The revision was due to the need to redeploy audit staff to priority tasks to support the Council's response to the pandemic and support Financial Services. This resulted in three audits being removed from the plan. The revision of the plan did not affect the Chief Internal Auditor's ability to provide an opinion on the Council's systems of governance and internal control.

97. During 2021/22, one of the seventeen audit reports presented to the Audit and Scrutiny Committee had an overall audit opinion of 'limited' assurance. This related to Contract Management in Roads and Amenity Services.

98. For this report, an action plan has been agreed with management and progress against their delivery is monitored by Internal Audit. More generally, a formal system is in place within the Council to follow-up audit recommendations and report progress to Senior Management and the Audit and Scrutiny Committee on a regular basis.

Performance reporting in the management commentary of the Annual Accounts was of a good standard

99. Management commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

100. The management commentary is of a good standard and clearly explains the Council's strategy, finances and links to the financial statements. The statutory requirements relating to non-financial performance have been met. The management commentary also details the impact of Covid-19 on the Council's business and financial position.

Openness and transparency

101. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions and is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

102. Prior to March 2020, members of the public were able to attend Council and other committee meetings as well as accessing agendas, papers and minutes on the Council's website. The move to remote committee meetings has restricted direct attendance, however meetings are now webcast and recorded for public viewing. The relevant papers are still available on the website to support transparency.

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

5. Best Value

Using resources effectively and continually improving services

Main judgements

The Council has an appropriate and effective best value framework in place.

The Council continues to make good progress addressing the recommendations contained in our May 2020 Best Value Assurance Report.

The Council is making good progress in securing Best Value

104. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council has been considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in May 2020.

105. In the BVAR, we highlighted key areas where the Council should focus its improvement activities going forward. The report made seven recommendations relating to areas for further development. These are detailed at [Appendix 3](#).

106. We followed up the BVAR recommendations as part our 2021/22 audit work. The timing of the Council's BVAR review and the publishing of the report came at a time where the Council were focussed on their response to the Covid-19 pandemic. Subsequently, we recognise that progress made in implementing of agreed actions have been delayed as the Council focussed on responding to the pandemic.

107. Actions where progress has been delayed or limited as a result of Covid-19 include:

- Increase the pace of change through transformation to deliver the business outcomes and this should be monitored and reported on a regular basis.
- Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes. Put in place robust options appraisal processes and a benefits monitoring framework, proportional to the size of initiatives, to evaluate the benefits and costs of future projects.
- Work with communities and community groups to understand and address their concerns and establish priorities in how it can better support them. This should include engaging with communities to understand and improve levels of satisfaction with council services.

108. Overall, we concluded that the Council has made good progress in implementing the BVAR recommendations, although work is still on-going and the impact on outcomes is not yet clear.

Best value

The best value audit work carried out this year focussed on the council's arrangements for demonstrating best value in Efficient Use of Resources and Performance, Outcomes and Improvement. Our conclusions on Efficient Use Resources are largely set out in the earlier sections of this report. The findings of Performance, Outcomes and Improvement are reported below.

The Council were able to maintain service performance levels despite the pandemic

109. The pandemic has had an impact on performance measures, particularly for services which have been temporarily suspended, operating at reduced levels or have had to adapt to new ways of working. The Council have continued to monitor key performance targets throughout the year with performance being regularly reported to the Audit and Scrutiny Committee. These reports monitor progress against the Council's key priorities.

110. Of the Council's 85 success measures, 67 per cent were classified as on track. The remaining 33 per cent are off-track, either in terms of performance itself or the availability and collection of timely data to evidence performance. All off-track measures have been impacted by Covid-19.

111. From 2022/23, the Council will no longer align success measures through the Business Outcomes. To monitor the delivery of the Council's Corporate Outcomes, a suite of 47 Indicators has been identified. These are known as Corporate Outcome Indicators (COIs) and will all align directly to the Council's Corporate Outcomes.

There are appropriate arrangements in place to collate statutory performance indicator (SPI) data

112. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

113. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes

- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities

114. We have evaluated the Council's arrangements for fulfilling the above requirements and concluded that these are appropriate.

National performance audit reports

115. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 4](#).

116. The Council has a process in place to ensure that findings from national reports are reviewed, and where relevant, presented to the Audit and Scrutiny Committee. This reporting includes an assessment of current arrangements and the identification of actions to be taken to apply good practice examples highlighted in the reports.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Section 106 charities administered by Argyll and Bute Council</p> <p>The Charities Accounts (Scotland) Amendment Regulations 2010 permits a single set of accounts for connected charities.</p> <p>However, Argyll and Bute Council does not apply the connected charities provision and currently prepares a separate set of annual accounts for each Section 106 charity.</p>	<p>The Council should apply the connected charities provision to reduce the number of annual accounts prepared for its Section 106 charities.</p> <p>Paragraph 27-28</p>	<p>Management response: While this is not a requirement it will be reviewed and actioned as part of the 2022-23 annual accounts process.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: 2022-23 Annual Accounts</p>
<p>2. Property, plant and equipment valuations</p> <p>We requested that management, in consultation with a qualified valuer, carried out an additional assessment of the value of assets that had not been valued in 2021/22. As a result of this work, the estimated value of non-current assets increased by £29.9 million.</p> <p>There was no impact on the Council's general fund.</p>	<p>Management should put in place a process to ensure that an assessment of the value of assets not revalued in year is carried out on an annual basis.</p> <p>Exhibit 2</p>	<p>Management response: A process will be put in place, but as discussed with the External Auditors it would be helpful for Audit Scotland to issue guidance to Local Authorities to ensure a consistent approach.</p> <p>Responsible officer: Estates and Property Development Manager.</p> <p>Agreed date: 31 March 2023.</p>
<p>3. Financial Sustainability</p> <p>The Covid-19 pandemic has introduced further financial</p>	<p>The Council should continue review and update its medium-term financial plan</p>	<p>Management response: The medium-term financial plan will be regularly reviewed,</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>challenges with a projected funding gap of up to £33.0 million over the period 2023/24 to 2027/28 as a result of anticipated funding reductions, estimated future pay awards and inflation levels.</p> <p>Risk</p> <p>The Council is unable to implement a sustainable model for service delivery.</p>	<p>as the financial consequences of Covid-19 and the cost-of-living pressures become fully determined.</p> <p>Paragraph 87-90</p>	<p>updated and reported to Council.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: Ongoing – reported to every Policy and Resources</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial Sustainability</p> <p>The Covid-19 pandemic has introduced further financial challenges with a projected funding gap of up to £23.3 million over the period 2022/23 to 2026/27.</p> <p>Risk – The Council is unable to implement a sustainable model for service delivery.</p>	<p>The Council should continue to update its financial plans as soon as they have more clarity on the financial impacts of Covid-19.</p>	<p>Superseded – see Appendix 1, Action Plan Point 3.</p>
<p>5. BVAR recommendations</p> <p>Despite making good progress in addressing the recommendations outlined in the BVAR (Published in May 2020), overall progress has been impacted by the Covid-19 pandemic and the challenging operating environment.</p> <p>Risk – There is a risk that the Council may not implement BVAR recommendations in the required timescale.</p>	<p>The Council should review the BVAR action plan, revising actions and key dates as appropriate to inject pace and momentum into the work to address the recommendations that have been delayed due to the Covid-19 pandemic.</p>	<p>Ongoing.</p> <p>Responsible officer: Head of Customer Support Services</p> <p>Agreed date: Update to be provided January 2023</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 report and accounts and those relating our wider responsibility under the Code of Audit Practice.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusion
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Focused testing of accounting accruals and prepayments.</p>	<p>Results: No issues were identified in relation to the design and implementation of controls over journal entry processing.</p> <p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>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.</p> <p>Substantive testing of transactions around the year end did not identify any issues.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focussed testing on accruals and prepayments did not identify any instances of</p>

Audit risk	Assurance procedure	Results and conclusion
		<p>management override of controls.</p> <p>Conclusion: we did not identify any incidents of management override of controls.</p>
<p>2. Valuation and measurement of Non-Current Assets</p> <p>As at 31 March 2021, the Council held non-current assets with a value of £671.3 million. This included Land and Buildings with a net book value of £376.1 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.</p>	<p>Completion of 'review of the work of management's expert' for the internal professional valuer.</p> <p>Review of land and buildings revaluations carried out, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals.</p> <p>Confirm land and buildings asset revaluations in valuer's report are correctly reflected within the 2021/22 financial statements.</p> <p>Work to assess the reasonableness of the valuations in the valuer's report.</p>	<p>Results: As outlined in Exhibit 2, we requested that management, in consultation with a qualified valuer, carried out an additional assessment of the value of assets that had not been valued in 2021/22. As a result, the estimated value of non-current assets increased by £29.9 million and an adjustment was processed by management to correct this misstatement.</p> <p>Conclusion: Satisfactory following the adjustment processed.</p> <p>(Refer to Appendix 1, Action Plan Point 2 and Exhibit 2)</p>
<p>3. Measurement and judgements applied to the valuation of pension liabilities</p> <p>As at 31 March 2021, the Council recognised a net liability of £82.3 million relating to its share of the Strathclyde Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.</p>	<p>Completion of 'review of the work of management's expert' for actuary.</p> <p>Confirm pension valuations in actuarial report are correctly reflected within the 2021/22 financial statements.</p> <p>Assess the completeness and accuracy of information provided to actuary to support the triennial revaluation process.</p> <p>Review and assess the reasonableness of actuary's valuations and assumptions.</p>	<p>Results: We noted no issues with:</p> <ul style="list-style-type: none"> -the reliability of the actuary or the reasonableness of estimates they provided. -the controls management put in place or the accuracy of the information provided for the valuation. <p>Conclusion: We did not identify any issues with the pension valuation.</p>

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

Audit risk	Assurance procedure	Results and conclusion
<p>4. Financial Sustainability</p> <p>Councils continue to face significant financial challenges with pressures on funding and increasing demand for services. As per the Budget Outlook report presented to the Policy and Resources Committee in December 2021, the Council's budget estimates are for a mid-range budget gap of £3.7 million for 2022/23, rising to an in-year gap of £26.7million by end of 2026/27.</p> <p>The 2022/23 budget will be set in February 2022 with an anticipated balanced position. This will still leave significant gaps in future years that will require to be addressed.</p> <p>At the end of January 2022, the Council are reporting a small underspend in 2021/22. As a result, there is a risk to financial sustainability and the sustainability and quality of services in future.</p>	<p>Review of the Council's annual budget setting arrangements.</p> <p>Assessment of the council's medium to long term financial strategy.</p> <p>Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position.</p> <p>On-going review of the Council's financial position and delivery of planned savings.</p>	<p>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.</p> <p>Conclusion: The Council achieved a year-end surplus of £1.6 million for 2021/22. Significant financial challenges will continue in the short to medium-term and this has been highlighted at Appendix 1, Action Plan Point 3.</p>

Appendix 3. BVAR Recommendations (May 2020)

- Develop the transformation agenda supported by a medium-term savings plan which is affordable and achievable.
- Improve performance management reporting to provide a balanced picture of long-term trends in performance against its targets. Use benchmarking information to drive continuous improvement.
- Increase the pace of change through transformation to deliver the business outcomes and this should be monitored and reported on a regular basis.
- Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes. Put in place robust options appraisal processes and a benefits monitoring framework, proportional to the size of initiatives, to evaluate the benefits and costs of future projects.
- Work with communities and community groups to understand and address their concerns and establish priorities in how it can better support them. This should include engaging with communities to understand and improve levels of satisfaction with council services.
- Work with elected members to improve the uptake of training provided. In particular, elected members' knowledge of and involvement in the performance management process needs to be improved to develop wider scrutiny to support improvement.
- Improve engagement to ensure staff are bought into the Council's vision. Review the support and resources it provides to staff in rural areas to ensure that all employees have appropriate access to training to support them in their role.

Appendix 4. Summary of 2021/22 national performance reports and briefings

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Argyll & Bute Council

2021/22 Annual Audit Report

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