

Inverclyde Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

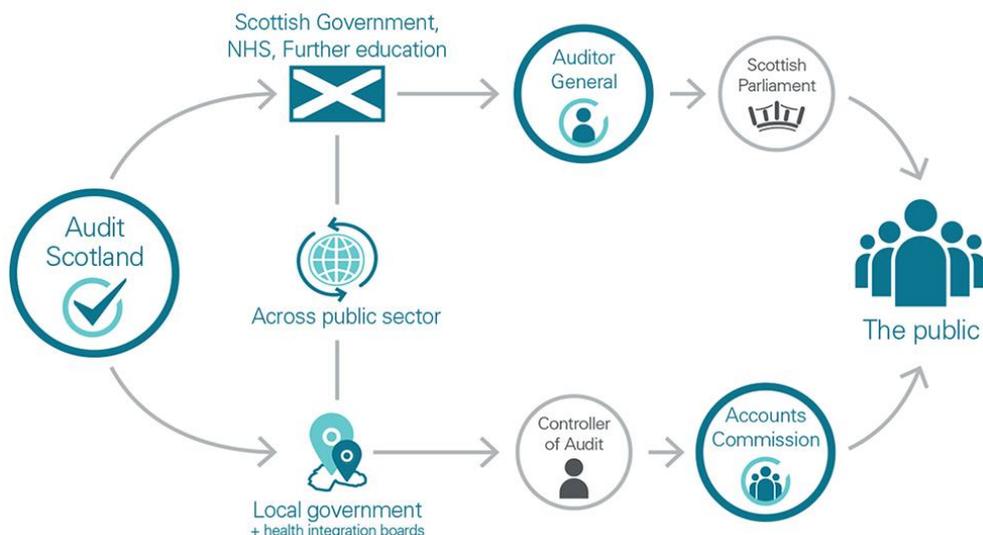
Prepared for the Members of Inverclyde Council and the Controller of Audit

26 September 2019

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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual accounts	7
Part 2 Financial management	12
Part 3 Financial sustainability	17
Part 4 Governance and transparency	19
Part 5 Value for money	22
Appendix 1 Action plan 2018/19	30
Appendix 2 Significant audit risks identified during planning	33
Appendix 3 Summary of national performance reports 2018/19	36

Key messages

2018/19 annual accounts

- 1** Inverclyde Council (the council) and its group financial statements were unqualified.
- 2** There were significant adjustments made in the audited financial statements for council tax debtors, non-current asset depreciation and IJB transactions.
- 3** The pensions liability has increased by £8.4 million following decisions by the UK Supreme Court in June 2019.
- 4** Although the management commentary is consistent with the accounts, the council could do more to improve transparency in the narrative

Financial management and sustainability

- 5** The council's 2018/19 budget included savings targets of £3 million, all of which were achieved on a recurrent basis.
- 6** The underspend of £3.2 million included unused inflation contingencies of £1.2 million.
- 7** Earmarked reserves continue to reduce, and the Council faces financial challenges with an estimated further £19 million of savings required over the period 2020 to 2023.
- 8** The council has a long-term financial strategy and a medium-term financial plan. The CMT has been developing further savings options for the medium/ long term and these may require difficult decisions by members.

Governance, transparency and value for money

- 9** The Council has made good progress in progressing the Best Value Assurance Report Improvement Plan.
- 10** Equality arrangements have been established and the council is actively engaged in reducing the gender pay gap, which has reduced year-on-year over the past three years. However, it is still the third highest amongst Scottish Councils.
- 11** The Council continues to perform well against a range of national indicators.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Inverclyde Council and its group (the council).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 26 February 2019 meeting of the Audit Committee. This report comprises the findings from:
 - an audit of the annual report and 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](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been:
 - an audit of the council and its group 2018/19 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the council's key financial systems
 - audit work covering the council's arrangements for securing best value relating to the BVAR action plan points that the council have assessed as complete. We also undertook a review of the council arrangements for ensuring equality, following up on work undertaken as part of the initial BVAR in 2017.

Added value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, 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

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. 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.

7. 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. 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, the financial position and arrangements for securing financial sustainability and best value. 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](#).

8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. 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.

9. 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.

10. 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 the 2018/19 audit fee of £248,140 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Inverclyde Council and its group financial statements are unqualified.

There were significant adjustments made in the audited financial statements for council tax debtors, non-current asset depreciation and IJB transactions.

The pensions liability has increased by £8.4 million following decisions by the UK Supreme Court in June 2019

Although the commentary is consistent with the accounts, the council could do more to improve transparency in the narrative

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

The annual accounts received unqualified opinions

12. The annual accounts for the council and its group for the year ended 31 March 2019 were approved by Inverclyde Council on 26 September 2019. We reported, within the independent auditor's report that the;

- financial statements give a true and fair view and were properly prepared
- 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

13. We have nothing to report in respect of unadjusted misstatements in information in the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Finance staff provided good support to the audit team

14. We received the unaudited annual accounts on 27 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

No objections were received on the annual accounts

15. 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 and there were no objections to the accounts.

We identified and addressed risks of material misstatement

16. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance on these risks. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Our materiality values reduced slightly from the audit plan

17. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.
18. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.
19. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they could be reduced slightly based on the gross expenditure of the council. Materiality still represents 1% of gross expenditure, with performance materiality being 50% of this.

Exhibit 2 Materiality values

Materiality level	Planning amount	Revised amount
Overall materiality	£3.4 million	£3.2 million
Performance materiality	£1.7 million	£1.6 million
Reporting threshold	£100 thousand	£100 thousand

Source: Audit Scotland, Annual Audit Plan 2018/19

We report significant issues with the council tax bad debt provision, depreciation calculations, IJB transactions, and on the pension liability following the McCloud judgement

20. 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. Significant findings are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Council tax bad debt provision</p> <p>The council tax bad debt provision was incorrectly calculated and understated over the period 2014/15 - 2018/19. The overall debtor was therefore overstated. This occurred due to incorrect application of the policy and an incorrect budgeted collection rate being applied.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendments resulted in a decrease in council tax income.</p> <p>The total impact is a decrease in council tax income over the period 2014/15 - 2018/19 of £1.7 million.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Depreciation</p> <p>An error in the fixed asset register depreciation calculations overstated depreciation costs for 2018/19 for vehicle additions and building revaluations. The miscalculation resulted in an overstatement of £2.2 million for depreciation costs.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendment resulted in a decrease in the cost of services of £2.2 million.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Integration Joint Board income and expenditure</p> <p>Income and expenditure figures for health and social care in the Comprehensive Income and Expenditure Statement and in the Expenditure and Funding Analysis were understated by £1.8 million. This was due to budgeted figures being included instead of actual.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendment resulted in an increase in both income and expenditure of £1.8 million.</p>
<p>4. Pension scheme valuations</p> <p>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. The UK Government sought leave to appeal this decision but in June 2019 the appeal was denied by the UK Supreme Court.</p> <p>This issue arose in June 2019 and has been treated as an adjusting event. The actuary, Hymans Robertson, produced revised (IAS19) reports for the council and its subsidiaries to take account of the impact of the McCloud case.</p> <p>This has affected all final salary pension schemes across the public sector.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendments resulted in an increase of £8.4 million (6.7%) of the pension liability of the council and £0.3 million for the group.</p> <p>In addition, in accordance with IAS10, a narrative disclosure has been included in Note 16.</p>
<p>5. Management commentary</p> <p>The management commentary that accompanies the financial statements should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed. Although the commentary is consistent with the accounts, the council should adopt best practice for the narrative contained within the</p>	<p>Management commentary will be comprehensively reviewed as part of the 2019/20 accounts preparation.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Issue	Resolution
management commentary outlined in the Accounts Commission's Financial Overview Report in 2017/18.	

Source: Audit Scotland

All material adjustments have been made in the audited statements

- 21.** There was one adjustment to the unaudited financial statements that was material (by value). This was due to the requirement to revise the pension liabilities for the impact of the McCloud judgement detailed in [Exhibit 3](#) above. There were three additional misstatements which exceeded our performance materiality of £1.6 million, these are included in [Exhibit 3](#). In each case we considered whether further audit procedures were necessary.
- In the case of the McCloud judgement we requested that the council obtain a revised IAS19 valuation from the actuary reflecting this judgement. We also encouraged group auditors to do the same for their audits. The estimate of the total effect was identified in the revised IAS 19 report.
 - For the bad debt provision, we reviewed the methodology and application of the provision in full to establish a revised provision
 - The IJB transactions were agreed to confirmations of the total funding by partners.
 - The error in depreciation was identified from a variance analysis. We carried out additional sample testing and asked officers to revise the calculations on all assets of the type identified.
- 22.** It is our responsibility to request that all misstatements above the reporting threshold are corrected.

Data analytics enhanced audit procedures

- 23.** In 2018/19 we used data analytics in Inverclyde Council as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as *“the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit for the purpose of planning and performing the audit”*. Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.
- 24. Reperformance of the trial balance/ accounts classification.** We obtained and analysed every general ledger transaction processed in 2018/19. The collected data was used to reperform the trial balance and confirm that the accounts agree to the ledger.
- 25. Analysis of ledger processing.** In general, the council's financial processing performance was consistent with its size and complexity. We did not identify any specific risk/issues with the council's processing performance. There were around 59,000 transactions with around 10% of these posted directly as journals.
- 26. Risk tagging of individual transactions.** We used a risk-tagging model to review all ledger transactions. The model incorporated factors such as value, timing and nature. We investigated high scoring transactions. The results of

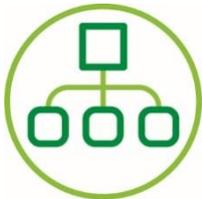
this testing were satisfactory, and we did not identify evidence of fraud or management bias.

Prior year recommendations are being progressed

- 27.** The council has made reasonable progress in implementing our prior year audit recommendations, with one of three actioned and two ongoing as planned. For actions not yet fully implemented, revised responses have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The council's 2018/19 budget included savings targets of £3 million, all of which were achieved on a recurrent basis.

The Council underspend of £3.2 million, included unused inflation contingencies of £1.2 million and over recovery of income (£0.7 million)

Financial management and reporting are effective

Earmarked reserves continue to reduce. Unearmarked reserves are higher than the council's policy of 2%

We identified financial control weaknesses in payroll.

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

The council's 2018/19 budget was £188 million; this included savings targets of £3 million

28. The 2018/19 budget was approved by the Council in March 2018. The budget was set at £188 million and identified that the funding gap of £3 million would be met through savings. The council carried out a budget consultation on a range of savings and proposals to increase charges. These include:

- a reduction in economic and regeneration funding for urban regeneration
- an increase in all-day parking charges from £1 to £2
- a £2.50 weekly charge for community alarms to bring the council into line with other Scottish councils
- free swimming for over 60s was withdrawn and the management fee paid to Inverclyde Leisure reduced offset by limited increase in future prices.

29. In total just over £1 million in budget savings from the budget consultation was taken as part of the council budget for 2018/19. The council also identified £2 million in savings delivered through a range of reviews and restructures which had already been agreed by the council's service committees. This includes a management restructure carried out by the council's Chief Executive.

Financial management and reporting are effective

30. The council effectively monitors the budget position through bi-monthly budget monitoring reports to the Corporate Management Team and bi-monthly reports to the Policy and Resources Committee. In addition, performance against budget for each service area is reported to the relevant service committee.

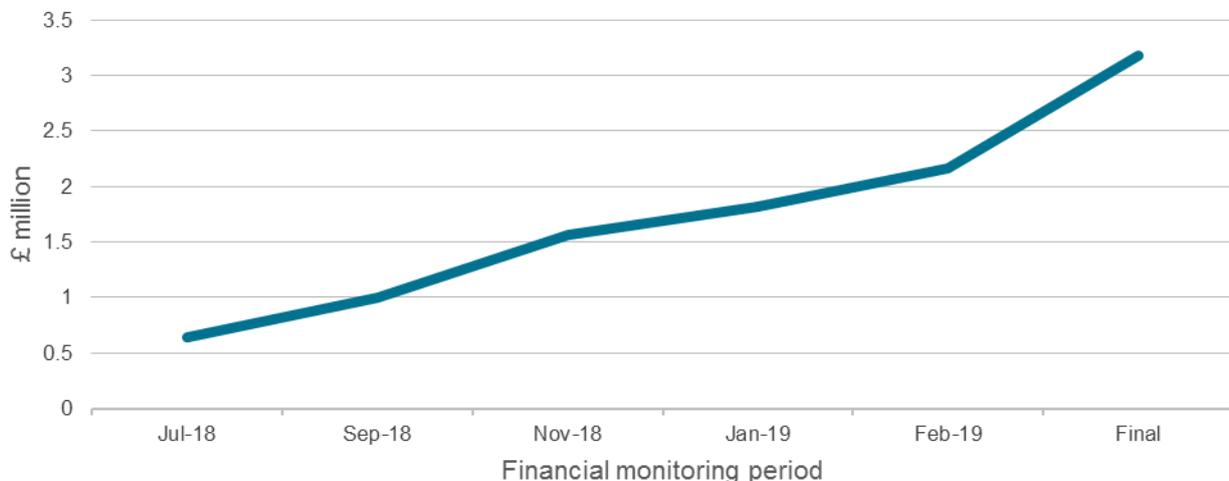
Detail of how the year end outturn position developed throughout 2018/19 is included in [Exhibit 4](#).

31. Financial forecasting is an embedded part of management and reporting. From our review of budget monitoring reports, we concluded that they provided an overall picture of the budget position at service level. The reports forecast the outturn position for the year and include narrative explanations for significant variances against budget. This allows both members and officers to carry out effective scrutiny of the council's finances.

Exhibit 4

Outturn reporting of the projected year-end surplus during 2018/19

The year-end underspend of £3.2 million (includes IJB) developed gradually during the year



Source: Inverclyde Council Revenue Budget Monitoring Reports and 2018/19 Annual Accounts

The 2018/19 outturn was a surplus of £3.2 million. This included unused inflation contingencies of £1.2 million

32. The 2018/19 revenue outturn is an underspend of £3.2 million (1.8%). In addition to the recurrent savings achieved (£3 million), across all service committees the Council achieved savings of £1.0 million due to non recurrent savings from employee turnover and £0.7 million over recovery of income. Inflation contingencies of £1.2 million were not required, and there was additional interest earned of £0.3 million. The year end outturn for at least the last three years has included a saving due to inflation contingencies not being used (£1m in 2017/18 and £0.4m in 2016/17). This would suggest that inflation contingencies have been set too high.

Recommendation 4

Inflation contingencies should be reconsidered as part of the next budget setting process, possibly reducing the savings target required

33. While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. These are summarised in [Exhibit 5](#).

Exhibit 5

Summary of significant under / overspends against budget

Area	(Under)/over spend (£m)	Reason for variance
Underspends		
Policy & resources	£1.9	Inflation contingencies not used (£1.2m), additional Internal Resources Interest (£0.3m) and various other over recoveries and additional income.
Education and Communities	£0.1	Turnover savings and additional income recovery
Environment & Regeneration	£0.4	Turnover savings and additional income recovery
Health and social care	£0.8	Turnover savings and additional income recovery

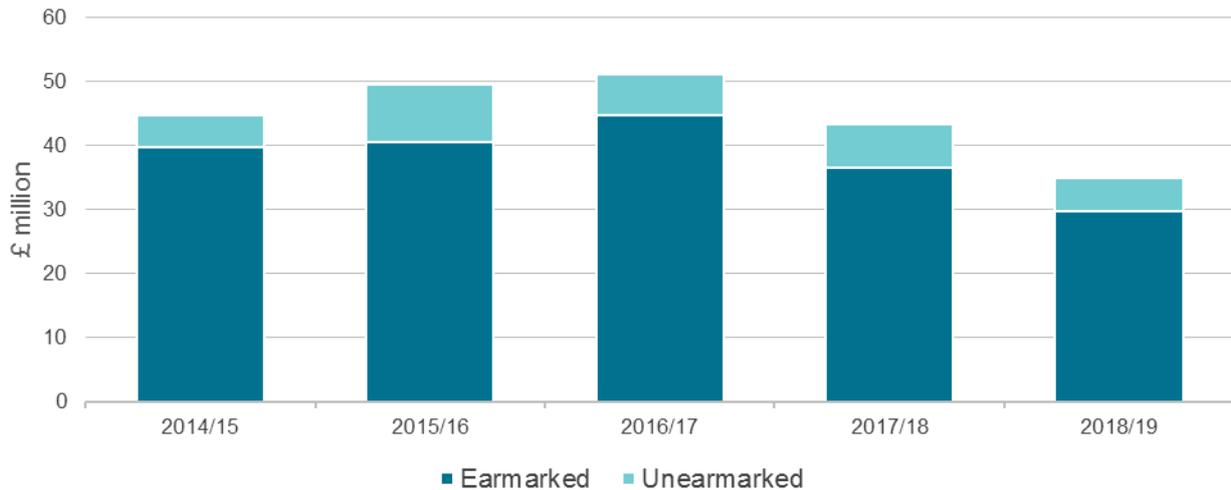
Source: Inverclyde Council 2018/19 Annual Accounts

Earmarked reserves continue to reduce although unearmarked balances are higher than the council's policy of 2%

34. The planned use of earmarked reserves is reported regularly to the corporate management team and to relevant service committees within financial monitoring reports. The Policy and Resources Committee also receives an earmarked reserves position statement.
35. The level of usable reserves held by the council decreased from £43 million in 2017/18 to £35 million in 2018/19 as illustrated in [Exhibit 6](#). The movement includes correction of a prior year misstatement which increased reserves by £2.1 million.
36. The reduction is in part due to a 2017/18 change in policy. The Council now uses the "revenue contribution to capital programme" reserve to fund capital projects rather than undertaking new borrowing. The reduction is also due to the planned use of other earmarked reserves, with notable reductions to "Contribution to Riverside Inverclyde", "School Estate Management Plan", "Equal Pay" and "Early Retiral" reserves.
37. Of the balance remaining at 31 March 2019, £30 million has been earmarked for particular purposes. This leaves £5.2 million of unallocated reserves (2.8% of the Council's budgeted net annual running costs). This is £1.4 million more than the council's policy (2% of annual turnover based on the 2018/19 budget). The Council has agreed to an additional £3 million of unearmarked reserves for budget smoothing as part of the Medium-Term Financial Strategy.
38. [Exhibit 6](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. The Council continues to have relatively high levels of reserves despite the reduction in 2018/19, but most of these are earmarked.

Exhibit 6

Analysis of general fund over last five years



Source: Inverclyde Council Audit Annual Accounts

39. Although usable reserves remain high, only £18 million (38%) are cash-backed. This means that further borrowing would need to be undertaken to realise all of the rest.

The council has restructured some debt and internal loans fund repayments are to be reviewed in 2020/21

40. No new borrowing was undertaken during 2018/19, however the council restructured £3 million of its market loans during 2018/19. The net effect of this restructuring is an annual saving in loan charges of around £30,000 per year for 44 years. The review of loans fund repayment periods is permitted where it is prudent to do so. This may generate medium term revenue savings. The council intend to review its loans fund repayment periods as part of the 2020/21 budget exercise.

Financial system controls are operating effectively in most areas, but there are weaknesses in payroll

41. As part of our audit we identify and inspect 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 council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
42. Our findings were included in our management report that was presented to the Audit Committee on 23 April 2019. We concluded that the key controls were operating effectively. However, two significant control weaknesses were identified during payroll system testing relating to employee validation and system access. In response to this, we increased our substantive testing of staff costs and concluded that there were no material errors in the financial statements. These identified weaknesses have now been addressed by officers.



Recommendation 5

The council should ensure that robust controls are in place to address the weaknesses reported in April 2019 including payroll validation and system access.

Internal audit operates in accordance with standards

- 43.** We reviewed of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Part 3

Financial sustainability



Main judgements

The Council faces financial challenges with an estimated further £19 million of savings required over the period 2020 to 2023.

The council has a long-term financial strategy and a medium-term financial plan. The CMT has been developing further savings options for the medium/ long term and these may require difficult decisions by members

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

The 2019/20 budget is based on achieving further savings of £2.3 million, and a reduction in unearmarked reserves

44. The 2019/20 budget was approved by the Council in March 2019. The budget was set at £193 million after closing an initial funding gap of £4.0 million through savings of £2.3 million, a previously agreed draw of £0.8 million on unearmarked reserves and a 4.79% council tax increase (£0.9 million). The approved proposals also resulted in a general increase of 3% in fees and charges, as well as a loss of 53 FTE posts. At the same meeting, the Council agreed to use a further £4.0 million of unearmarked reserves to support time limited investment in policy areas.

45. The council's Members' Budget Working Group (MBWG) has continued to work together successfully. Difficult decisions have been made after careful consideration and debate across political parties. This includes increases in fees and charges and loss of posts, as included in the paragraph above.

The council's current budget position is projecting an underspend mainly due to inflation contingencies not required

46. As at 31 July 2019 the council is projecting a £1.2 million underspend (excluding Health & Social Care Directorate) which represents 0.64% of the net revenue budget. This is mainly due to:

- Release of non-pay inflation not required (£250,000)
- Release of pay inflation not required (£500,000)
- Projected over recovery Internal Resources Interest (£250,000).

47. Again, inflation contingencies have not been required ([Recommendation 3](#)).

The council has a long-term financial strategy and a medium-term financial plan

48. The [Best Value Assurance Report on Inverclyde Council](#) identified that the Council has a good process in place for financial planning. The Council's financial strategy covers the period 2019/20 to 2028/29. It is updated on a six-monthly basis and ensures that strategic initiatives that require long-term revenue and capital commitments are properly incorporated into the financial planning process. Such longer-term initiatives include the asset management strategy, school estates management plan and roads asset management plan.
49. The strategy provides detailed financial forecasts over the medium-term period 2020/21 to 2022/23 and identifies issues that will impact in the longer-term so that the Council can plan ahead. Through this process, officers have identified that the Council has a budget gap of £7 million in 2020/21 and an additional gap of £12 million over the period to 2023. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2020 to 2023 are £6.8 million and £30.5 million respectively.

The CMT has been developing further savings options for the medium/ long term and these may require difficult decisions by members

50. The council is facing several challenges in maintaining a sustainable financial position over the medium to long term.
51. The Corporate management Team (CMT) has been developing savings options at directorate level. Each directorate has been given a target to develop between to £5 to £6 million worth of savings options. A report by the Chief Financial Officer to the August 2019 Policy and Resources Committee noted that the current value of savings options identified is between £18 and £20 million and more detail will be reported to members in due course. The report also notes that given the volume of savings there will be an impact on the council workforce with some areas potentially seeing quite significant reductions if savings proposals are approved.

Part 4

Governance and transparency



Main Judgements

There are appropriate governance arrangements and the council is open and generally transparent.

There are appropriate standards of conduct for prevention and detection of fraud and error.

The council has appropriate arrangements to assess the risk of key supplier dependency and is reasonably prepared for EU withdrawal.

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

Appropriate governance arrangements are in place to support decision making

- 52.** The standing orders and scheme of administration were updated in June 2018. They set out the committee structure that operates and the terms of reference for each committee.
- 53.** Our observations at committee meetings and review of papers and minutes have confirmed that there is effective scrutiny and decision-making by members and effective working relationships in place.

The council is open and generally transparent in the way it conducts its business

- 54.** There is evidence from several sources which demonstrate the council's commitment to transparency, including:
- members of the public can attend meetings of the full Council and other committees and the agenda, papers and minutes of these committee meetings are readily available on the Council's website
 - the Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and how to make a complaint
 - the website provides details of the citizen's panel and how to join it as a means of influencing future service delivery arrangements
 - the Council also makes its annual accounts, and the annual accounts of all subsidiaries, available on its website.

There are appropriate standards of conduct for prevention and detection of fraud and error

55. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

The council has made good progress in investigating National Fraud Initiative (NFI) matches

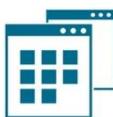
56. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 7](#).

Exhibit 7 NFI activity



2,788

Matches



1,462 (52%)

Completed/closed
investigations



67

In progress investigations

Source: NFI secure website: www.nfi.gov.uk

57. The council prioritises reviewing and investigating high risk matches but aims to investigate all matches. Since January 2019, when the matches became available, the council has investigated and closed 1,462 matches (52 per cent). To date the council are progressing the recovery of 12 cases which have been concluded as fraud or error, with a cumulative value of £18,283. These all relate to housing benefits, for which the council has plans in place to recover the overpayments.

58. Internal Audit continues to regularly report the outcomes of the NFI exercise to the Audit Committee.

The council has appropriate arrangements to assess the risk of key supplier dependency

59. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and / or underperformance of suppliers that are experiencing financial difficulties.

60. During the selection stage of a contract award the council considers a range of selection criteria including "supplier financial appraisal". In addition, as part of the council's approved framework, reports for organisations with which the council has a significant financial relationship are presented to the relevant

service committee throughout the year. This gives assurance in terms of performance, governance and financial stability. An annual report is presented to the Policy & Resources Committee summarising progress and highlighting any areas where the agreed governance actions have not been delivered.

The council is reasonably prepared for EU withdrawal

- 61.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
 - Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
 - Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.
- 62.** We assessed the council's readiness for withdrawal from the EU and found them to be reasonably prepared ahead of the expected withdrawal date (29 March 2019). The council has a risk in its strategic risk register in relation to EU withdrawal and has activated the Crisis and Resilience Management Team in 2018 to review the risk posed by Brexit and develop responses. The CRMT is linking with the Regional Resilience Partnership and has responded to guidance from Scottish Government and COSLA.
- 63.** The council has not identified a significant number of non-UK EU employees in its workforce and does not consider there to be any fundamental risk to services. In terms of financial preparedness, the council is aware of its EU funding streams and has engaged with a range of bodies, such as COSLA and the Scottish Government, to identify the impact of the loss of EU funding. As detailed in paragraph 49 the council has a long-term financial strategy which considers EU withdrawal. The council has confirmed their 'Ready' Status as specified on the Local Authority Readiness Dashboard (which provides an overview of all 32 Scottish Local Authorities' level of preparedness).

Part 5

Value for money



Main judgements

The Council has made good progress in progressing the Best Value Assurance Report Improvement Plan

Equality arrangements have been established and the council is actively engaged in reducing the gender pay gap, but it is still the third highest amongst Scottish Councils

The Council has made further progress on shared services and continues to actively pursue opportunities with other councils

The Council continues to perform well against a range of national indicators

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

The council reports good progress against the Best Value Assurance Report Improvement Plan

64. The [BVAR report for Inverclyde Council](#) was published in June 2017. This was a positive report overall. There were ten recommendations made in the report to support further improvement at the council.
65. At its meeting in June 2017 the council agreed the improvement actions within the BVAR and that a progress report will be submitted to the Performance and Resources Committee every six months.
66. In our Annual Audit Report on 2017/18, we identified that four of the ten recommendations had been completed. One further recommendation has been identified as complete during 2018/19. The remaining five actions are still ongoing with progress identified in the following table, as indicated in the most recent report to the Policy and Resources Committee in September 2019.

BVAR Recommendation	Council assessment	Summary of progress
3. Actions to deliver strategic improvements should identify the difference they are expected to make to the overall strategic outcomes, with milestones at key intervals.	Green – on track	<p>Work is ongoing in this area.</p> <p>A review of KPIs has been carried out to ensure that performance measurement is linked to corporate priorities.</p> <p>The CDIPs 2019/22 are aligned to the delivery of the Corporate Plan organisational priorities.</p> <p>An annual report for the Inverclyde Outcomes Improvement Plan has been</p>

BVAR Recommendation	Council assessment	Summary of progress
		approved and is available on the Council's website.
<p>6. The council should develop more detailed workforce plans and longer-term forecasts of workforce numbers and skills required.</p>	Green – on track	<p>Work is ongoing in this area.</p> <p>A Leadership event and workshop took place in June 2019. Views were captured from senior managers on the key challenges and the actions needed to address these.</p> <p>The feedback received will be used to inform the Organisational Development Strategy.</p> <p>All succession plans are complete.</p>
<p>7. The council has experienced delays in its City Deal projects. Councillors and officers should continue to focus significant efforts on developing these projects with private sector partners.</p>	Green – on track	<p>Regular updates are provided to the Project Board and Environment and Regeneration Committee. As part of the Glasgow City Region City Deal Inverclyde Council is investing in three projects:</p> <p>Ocean Terminal: an augmented Outline Business Case for Ocean Terminal has been approved by the Glasgow City Deal Cabinet. A final business case was approved for the implementation of the floating pontoon. All consents are now in place for the pontoon and the construction contract has been awarded.</p> <p>Former Power Station, Inverkip: agreement has been reached on preferred junction improvements and Scottish Power is progressing detailed designs. These designs will be taken through contract preparation and tender when a Final Business Case will be submitted by the Council to the City Deal Project Management Office.</p> <p>Inchgreen Dry Dock: The proposals on site involve construction of vessels, marine engineering, fish processing and a fisheries training facility. Subject to negotiations with the interested parties, an Outline Business Case will be submitted later in 2019 which will facilitate land accumulation</p>

BVAR Recommendation	Council assessment	Summary of progress
		and progression to Final Business Case
<p>8. To progress community empowerment to the level that the Act requires, the council will need to further develop the capacity of communities it is working with. It will need to raise awareness of the possibilities for communities and look at the level of funding and staffing required to work with communities to progress initiatives including the transfer of assets and participatory budgeting.</p>	Green – on track	<p>An agreed structure is now in place for locality planning along with a Communication and Engagement.</p> <p>Community events are planned to obtain a better understanding of community priorities</p>
<p>9. All service review reports should be presented to councillors at the relevant service committee, in accordance with the council's service review guidance. Councillors should also receive progress reports on service reviews.</p>	Green – on track	<p>Service review reports are reported to relevant service committees as they are completed. The timing of reporting of some service reviews is affected by the budget planning process.</p>

Our review confirms the BVAR progress reported by the council

67. During 2018/19, our work specifically focused on the BVAR action plan points that the Council have assessed as complete. We confirmed the following:

- Recommendation 1 – single set of outcomes.** The Local Outcome Improvement Plan (LOIP) sets out three strategic priorities (Population; Inequalities; and Environment, Culture and Heritage). These have been agreed from the conclusions of a strategic needs assessment. The local priorities are also linked to National Outcomes to ensure the alignment is clear. Indicators are also in place to ensure progress against outcomes can be measured. The new Corporate Plan was approved by the Council in June 2018. The wellbeing outcomes and priorities of the Corporate Plan also link to the LOIP priorities and include reference to strategic initiatives such as the City Deals and shared services. The corporate plan also includes clear indicators in order to measure the success of progress.
- Recommendation 2 – Budget Working Group.** For a number of years, councillors have operated a cross-party forum (Members Budget Working Group) to discuss and agree budget priorities and actions. The MBWG will continue to meet throughout the development of the 2020/23 budget.
- Recommendation 4 – corporate initiatives included in plans.** We have confirmed that the LOIP and the new Corporate Plan includes references to the City Deals and shared service developments.
- Recommendation 5 – review of earmarked reserves.** We have confirmed that the review of reserves is now complete. The Corporate Management

Team (CMT) considered whether the size of reserve was reasonable and for older, unused reserves whether it was still necessary to have these.

- **Recommendation 10 – change management groups.** We have confirmed that this is complete in terms of regular meetings and officers are progressing all change management proposals. Three Change Management Groups have been established to review progress on all change projects on a monthly basis.

Equality arrangements have been established

68. In line with the Equality Act 2010, the Council has developed an approach to mainstreaming equality, as outlined in the council's Equality Outcomes and Mainstreaming Report 2019. The report shows clear progress has been made on Equality Outcomes. Points to note include:

- Training on Equality Impact Assessments (EIAs) has been delivered to both Elected Members and employees Equalities training remains mandatory on an annual basis. Each member of staff must complete the "Brightwave" module. In addition, all staff will be given the opportunity to attend face-to-face training every three years. Equality and diversity training is included in the induction programmes for all employees within the council.
- EIAs were prepared between November 2018 and January 2019 for each of the 2019/20 budget saving proposals.
- There has been increased and targeted engagement with Inverclyde's children, citizens and communities who have protected characteristics.
- A range of translation and interpretation services are available when required to support customers who contact the council, including British Sign Language. Documents which are published on the council website are available in alternative formats upon request.
- Two thirds of the workforce have updated their equal opportunities status in 2018, which is double the previous response rate.
- Recruitment and selection procedures are equality impact-assessed and are subject to rigorous re-evaluation at regular intervals.

Gender pay gaps are reducing and the council is actively engaged in this. The gap has reduced year-on-year over the past three years, but Inverclyde still has the third highest gap of Scottish councils

69. The Equality Mainstreaming Report 2019 includes data on employee profile and pay from 2017/18. The highest paid 5% of earners that are women, has been fairly steady over time, and is 53.9 per cent for 17/18. The council are still working towards a target of 52.5 per cent.

70. The gender pay gap between the average hourly rate of pay for male and female employees is 8.7 per cent for 17/18 - this shows a steady decrease since 15/16. The average for Scotland is 3.9 per cent and Inverclyde has the third highest gender pay gap of all Scottish councils.

71. The Equality Mainstreaming Report shows:

- The workforce is predominately female at 75%.
- Women are more likely to work in part time, lower graded jobs / Men are more likely to work in full time, higher graded jobs.

- There is occupational segregation with females more likely to work in traditional 'female' jobs like care, catering and cleaning.
- The implementation of the Living Wage has had a positive effect on the Gender Pay Gap as more females have benefitted.

72. The Council held a seminar for female employees to explore further whether there are barriers or cultural issues that prevent female employees from being employed in higher grades. A new internal programme, "Uplifting Leadership", has also been introduced to promote progression in the Council, for which the uptake is understood to be predominantly female colleagues.

Inverclyde council has also reviewed pay gaps on the basis of disability

73. The equal pay analysis also shows a disability pay gap of 4.4%. Measures are being taken to reduce this, including the "Disability Confident Scheme", of which Inverclyde Council is level 3 (top) accredited.

The council has reviewed its grading and pay structure

74. An independent Equality Impact Assessment on the council's revised grading and pay structure was completed in 2018. This revised structure incorporated the consolidation of the Scottish Local Government Living Wage rate. This was an independent report which concluded that the proposed revisions to the Inverclyde LGE grading and pay structure remained well-founded in the job evaluation results; benefited the majority of employees in the lowest part of the grading structure and virtually eradicated the gender pay gap in terms of basic pay for the 3 lowest grades.

The council is a living wage employer

75. Inverclyde Council was one of the first Councils in Scotland to introduce the new Living Wage rate. Approximately 700 employees in Inverclyde Council benefited from the living wage foundation supplement. Inverclyde Council is a fully accredited living wage employer and its status was achieved in March 2016.

92% of staff agree that the council supports equality and diversity

76. The equality and diversity pages on the council website show that in 2018, 92% of staff agreed that the council accepts and supports equality and diversity. The evidence clearly shows a commitment to equal opportunities in service delivery at Inverclyde Council. The data is monitored to ensure continuous improvement and measures are consistently being taken to improve.

The council has made further progress on shared services and continues to actively pursue opportunities with other councils

77. The Accounts Commission and Auditor General have highlighted the benefits to the people who use council services, communities and public sector organisations of working well together. Our recent report, [Local government in Scotland – challenges and performance 2019](#) (April 2019) identified limited evidence of councils collaborating or sharing services.

78. In March 2017, Inverclyde and West Dunbartonshire Councils agreed to progress a shared service for roads and transportation. The Shared Head of Service for Roads and Transportation was appointed on the 7 January 2019. The postholder leads the Roads and Transportation Service within both West Dunbartonshire and Inverclyde Councils.

- 79.** Inverclyde Council has also agreed, following approval from West Dunbartonshire Council, to implement a shared management model for Internal Audit services. This will involve a single Head of Internal Audit to oversee both internal audit departments. A transitional period from September to December 2019 will support the implementation of the new management model. This will include conclusion of appropriate HR processes, matching to the new joint post and effective handover arrangements with the joint manager taking effect from January 2020.
- 80.** The council continues to explore opportunities for wider shared service opportunities such as ground maintenance, waste management and fleet management. It has now been agreed that the shared management of Roads and Transportation be extended to wider Environmental Services from April 2020.

Good arrangements are in place for arm's-length external organisations and the council continues to review these

- 81.** The Council has well-developed arrangements in place for its governance of arm's length external organisations (ALEOs), as we assessed in the 2017 BVAR Report.
- 82.** Following publication of the May 2018 Accounts Commission report 'Councils' use of arm's-length organisations', the Chief Financial Officer presented an assessment of the council's position relative to its two ALEO's against the nine recommendations contained in the report to the Policy & Resources Committee. The assessment identified that the council complies with eight of the recommendations and proposes that for the remaining action (make information about ALEO funding and performance clear and publicly available), officers will investigate ways to make information about ALEOs more prominent within the Council Website and Annual Accounts.

Performance management information is publicly available

- 83.** Information on how Inverclyde Council is performing is publicly available on the performance page of its website. Information is gathered from statutory performance indicators, local government benchmarking framework indicators and other sources and is presented in corporate and service-level summaries. The site provides access to useful one-page graphic snapshots.

The council continues to perform well against the Local Government Benchmarking Framework

- 84.** The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was published in February 2019 and covered the 2017/18 reporting period. The Council has 38 indicators out of 65 (59%) in the top two quartiles which is the joint third highest across all Scottish councils. This can be seen in [Exhibit 8](#) below. Notable performance improvements include:
- Inverclyde was the top performing authority in the percentage of invoices that were paid within 30 days
 - The council is ranked second across Scottish councils for the net cost per waste collection per premise
 - The percentage of pupils living in the 20% most deprived areas gaining 5+ awards at level 5 increased to 46% from 41%.

Exhibit 8

Local Government Benchmarking Framework 2017/18 – National rankings

Service	Indicators	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile
Children's services	27*	6	5	4	1
Corporate services	8	2	3	1	2
Adult social care	6	2	2	1	1
Culture and leisure services	8	1	3	3	1
Environmental services	15	3	4	5	3
Corporate assets	2	1	1	0	0
Economic development and planning	10	3	2	2	3
Total 17/18	65 (100%)	18 (28%)	20 (31%)	16 (24%)	11 (17%)
Total 16/17	59 (100%)	19 (32%)	16 (27%)	13 (22%)	11 (19%)

Source: SOLACE Improving Local Government Benchmarking Framework 2017/18 *11 indicators unavailable at time of writing

85. Areas where performance declined in 2017/18 include:

- Cost per pre-school education place, where Inverclyde is the highest in Scotland at £6,874
- Cost of museums per visit, where Inverclyde has dropped into the fourth quartile
- Cost of maintenance per kilometre of roads, where the council is the second highest in Scotland at £25,571.

The council has appropriate arrangements in place for collecting statutory performance indicators (SPIs)

86. For 2018/19 two SPIs were prescribed:

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

87. Inverclyde Council has demonstrated that the process is well planned with instructions issued for those preparing the indicators and the Council's arrangements for public performance publication are satisfactory.

Inspections by Education Scotland have continued to be positive

88. In October 2018, Education Scotland published its report, 'How well is Inverclyde Council improving learning, raising attainment and closing the poverty-related attainment gap?'. The Report notes that the council is making

very good progress in improving learning, raising attainment and narrowing the poverty-related attainment gap. Inverclyde's approach was described both as life-changing and sector leading.

- 89.** In January 2019, Education Scotland also carried out an inspection of Community Learning and Development (CLD) in Inverclyde Council. The inspection identified strong partnership working in relation to the Attainment Challenge and strong and effective leadership for CLD. Of the four quality indicators that the service was assessed against, two indicators were rated good and two very good.

National performance audit reports are routinely presented to relevant committees

- 90.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 3](#).
- 91.** The Council has processes in place to ensure that findings from national and other relevant Audit Scotland reports are reported to members. These are provided alongside an assessment of potential improvement actions by Inverclyde Council to support further improvements.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Council Tax bad debt provision policy</p> <p>The council tax bad debt provision was incorrectly calculated. This has been amended in the audit annual accounts.</p> <p>Risk</p> <p>There is a risk that the council tax income is inaccurately adjusted for bad debts.</p>	<p>An internal control check should be undertaken to ensure that the information and calculations within the annual accounts are accurate and in line with policy.</p> <p>The council tax bad debt provision policy should also be reviewed to ensure it is appropriate and reasonable.</p> <p>Exhibit 3 (Issue 1)</p>	<p>Bad Debt Policy to be reviewed and resource to carry out a secondary check of year end entries to be identified.</p> <p><i>Chief Financial Officer</i></p> <p><i>30 November, 2019</i></p>
2	<p>Fixed Asset Register</p> <p>An error in the fixed asset register depreciation calculations overstated depreciation costs for 2018/19 relating to vehicle additions and building revaluations.</p> <p>Risk</p> <p>There is a risk that information on non-current assets in the annual accounts is inaccurate.</p>	<p>An internal control check should be undertaken on the fixed asset register (Logotech) to ensure that the depreciation output is accurate.</p> <p>Exhibit 3 (Issue 2)</p>	<p>Address software issues with supplier and identify time in the year end timetable for further checks of reasonableness of entries</p> <p><i>Finance Manager (Environment & Corporate)</i></p> <p><i>31 January, 2020</i></p>
3	<p>Management commentary</p> <p>Although a number of improvements were made to disclosures in the management commentary, the council could do more to improve transparency in the narrative.</p> <p>Risk</p> <p>Users of the accounts do not clearly understand the development of the budget throughout the year and how this is represented in the financial statements.</p>	<p>The council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission's Financial Overview Report in 2017/18.</p> <p>Exhibit 3 (Issue 5)</p>	<p>Management commentary will be comprehensively reviewed as part of the 2019/20 accounts preparation.</p> <p><i>Chief Finance Officer</i></p> <p><i>31 March 2020</i></p>
4	<p>Inflation contingencies</p> <p>The year end outturn for at least the last three years has included</p>	<p>Inflation contingencies should be reconsidered as part of the next budget</p>	<p>Review of all contingencies will be carried out during the 2020/21 Budget exercise</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>a saving due to inflation contingencies not being used (£1m in 2017/18 and £0.4m in 2016/17). This would suggest that inflation contingencies have been set too high.</p> <p>Risk</p> <p>There is a risk that these are being set too high as part of the budget setting process</p>	<p>setting process, possibly reducing the savings target required.</p> <p>Paragraph 33</p>	<p><i>Chief Financial Officer</i></p> <p>28 February, 2020</p>
5	<p>Internal controls</p> <p>Our work on internal controls identified weaknesses in controls within the payroll system in particular. This is a concern given the extent of expenditure incurred on staff costs.</p> <p>Risk</p> <p>There is a risk that payroll information is inaccurate and not identified by service departments resulting in incorrect payments.</p>	<p>The council should ensure that robust controls are in place to address the weaknesses reported in April 2019 and ensure a robust control environment. Areas of specific focus are payroll validation and system access.</p> <p>Paragraph 42</p>	<p>The control weaknesses identified have been addressed by officers and validation and system access continue to be monitored.</p> <p><i>Head of OD, Policy & Communications</i></p>
Follow up of prior year recommendations			
b/f	Financial ratios	<p>The Council should adopt a consistent approach to calculating and reporting financial indicators.</p>	<p>Actioned</p> <p>Financial ratios were reviewed as part of the annual accounts audit and were found to be consistently reported.</p>
b/f	Shared services	<p>The Council needs to be clear on the benefits that it hopes to achieve and should ensure that any agreed shared service arrangement can deliver the desired outcomes.</p>	<p>Ongoing</p> <p>Shared service arrangements have progressed with a shared Head of Roads and Transportation, and a shared Head of Internal Audit in place with West Dunbartonshire Council. Expected benefits include:</p> <ul style="list-style-type: none"> • Increased potential to share best practice, learning and improve service; • Service delivery retained within public sector; • Efficiency delivered at management level providing overall savings. <p>The Council will continue to receive six monthly updates</p>



No. Issue/risk



Recommendation



Agreed management action/timing

No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	Common Good Fund	Current spending levels can no longer be sustained. Management must take corrective action to return the fund to a surplus position and to build up the minimum level of recommended reserves.	<p>on the effectiveness of the proposed arrangements to ensure the envisaged benefits are delivered.</p> <p>Ongoing</p> <p>The Council remains on target for the Common Good fund to reach a balance of £100,000 within the next four years.</p> <p>Based on the latest projections and the recent approved sale of a Common Good asset the Council has advised that plans are on target.</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](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>Results - We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments and results of data analytics risk assessment did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p>Conclusion - No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>Inverclyde Council receives a significant amount of income from several sources including income from fee and charges funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Reviewed the process for undertaking care income assessments</p>	<p>Results - We did not identify any significant issues from our testing of income controls and transactions.</p> <p>Conclusion - No fraud issues were identified.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the assumptions within ISA 240 to the risk of fraud associated with areas of expenditure. Inverclyde Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<p>Walked through the controls over social care payments.</p> <p>Detailed substantive testing of expenditure including social care payments, grants and housing benefit transactions.</p>	<p>Results - We did not identify any significant issues from our testing of expenditure controls and transactions, although we reported specific areas where controls could be strengthened.</p> <p>Conclusion - No fraud issues were identified.</p>
<p>4 Estimation and valuations</p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Assessed the scope, independence and competence of the</p>	<p>Results – We requested revised IAS19 reports for the council and its subsidiaries to reflect the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>and valuation of pensions and estimation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>professionals engaged in providing estimates.</p> <p>Reviewed appropriateness of actuarial results including comparison with other councils.</p> <p>Assessed the appropriateness of the actuarial assumptions.</p> <p>Established officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</p> <p>Reviewed actual experience of significant estimates made at previous year end.</p> <p>Reviewed officers' assessment of other significant accruals and provisions at the year end.</p>	<p>changes resulting from the McCloud judgement.</p> <p>The IAS19 reports were based on actual investment values at the year end.</p> <p>Audit testing of accruals and provisions did not identify any issues and the judgement of officer's was found to be appropriate, although the calculation of the council tax bad debt provision did require correction.</p> <p>Conclusion – No issues other than with the council tax bad debt provision were identified and this issue was corrected in the audited financial statements.</p>
<p>5 Openness and transparency</p> <p>The importance of openness and transparency in reporting has been highlighted by the Accounts Commission and within the 2017/18 Local Government Overview. In particular, the management commentary in the annual accounts should clearly show:</p> <ul style="list-style-type: none"> • the outturn against budget position for the year with the reasons for significant variances • the outturn reported in the narrative reconciled to the movement in general fund contained in the financial statements and major differences explained • progress against agreed savings specifically reported on in the accounts. <p>There is a risk that users of the annual accounts do not clearly understand the development of the budget throughout the year and how this is represented in the financial statements.</p>	<p>Reviewed revenue budget progress reports throughout the year.</p> <p>Reviewed the management commentary against Finance Circular 5/2015 and the recommendations in the Local Government Overview.</p>	<p>Results – Although a number of improvements were made to disclosures in the management commentary, the council could do more to improve transparency in the narrative.</p> <p>Conclusion - the council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission's Financial Overview Report in 2017/18.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Audit risk	Assurance procedure	Results and conclusions
<p>6 EU withdrawal</p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the council is not prepared for the impact of EU withdrawal on the delivery of services.</p>	<p>Assessed how the council has assessed and prepared for EU withdrawal, including the specific work on workforce impact and dependency on key suppliers.</p> <p>Considered how the council responds to any emerging issues after March 2019.</p>	<p>Results – The council has recognised EU withdrawal in the strategic risk register and activated the ‘Crisis and Resilience Management Team’. Work has been completed to assess the impact on workforce and funding streams.</p> <p>Conclusion – We assessed the council’s readiness for withdrawal from the EU and found them to be reasonably prepared ahead of the expected withdrawal date.</p>
<p>7 Dependency on key suppliers</p> <p>Dependency on a key supplier could expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists, there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues.</p> <p>There is a risk that the council is unable to deliver services if it is not aware of its key supplier dependencies and / or fails to have sufficient business continuity arrangements in place.</p>	<p>Carried out work to establish the extent, value and nature of key supplier dependencies, including considering the councils work planning for EU withdrawal.</p> <p>Where issues were identified considered the robustness of the business monitoring and continuity arrangements in place.</p>	<p>Results – Our work on contract awards and business continuity arrangements confirmed that the financial standing and implication of failure are a core part of the process.</p> <p>Conclusion – The council has appropriate arrangements in place to address the risk of key supplier failure.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Inverclyde Council

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



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