

Inverclyde Council

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Inverclyde Council and the Controller of Audit
27 September 2018

Who we are

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

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



About us

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

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

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

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Key messages

2017/18 annual accounts

- 1 Our audit opinions were all unqualified.
- 2 There is a significant adjustment in the Council's audited financial statements resulting in an increase in the pension liability and pension reserve position (£9.9 million).

Financial management and financial sustainability

- 3 The Council's budget for 2017/18 was based on a planned use of uncommitted reserves and did not include any new savings plans. The 2017/18 outturn was an underspend of £2.8 million and the Council did not need to apply uncommitted general fund reserves, per its budget.
- 4 The Council reduced its committed general fund reserve balance by £9.3 million. This was mainly as a result of increased contributions to capital projects and a planned reduction of equal pay, environment and regeneration, and smoothing reserves.
- 5 The Council faces financial challenges and approved savings of £5 million as part of the 2018/19 budget with an estimated further £15 million savings required over the period 2019 to 2022.
- 6 The Council has good medium term financial planning and a longer term financial strategy. Officers have developed savings proposals totalling £11 million for the period 2019/21.
- 7 The Council continues to have relatively high levels of general fund reserves despite the reduction in 2017/18, but most of these are earmarked.

Governance and transparency

- 8 The Council's governance arrangements are appropriate and support good governance and accountability.
- 9 The Council is making progress with its cyber security arrangements, and has been awarded Cyber Essentials certification.

Value for money

- 10 The Council has made reasonable progress in progressing the Best Value Assurance Report improvement plan.
- 11 The Council continues to perform well against a range of national indicators, but comparative performance has reduced in 2016/17 compared to 2015/16.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Inverclyde Council and its group (the Council).
2. The scope of the audit was set out in our Annual Audit Plan presented to the 27 February 2018 meeting of the Audit 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](#) as illustrated in [exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the Council and its group 2017/18 annual accounts and the issue of an independent auditor's report setting out our opinions
 - a review of the Council's key financial systems
 - follow-up audit work covering the Council's arrangements for securing Best Value relating to financial management, workforce planning and cyber security
 - consideration of the four audit dimensions.

4. 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.
5. 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.
6. 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.
7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's Best Value arrangements and in doing this we aim to support improvement and accountability.
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. 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.
10. 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 progress against these.
11. 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 2017/18 audit fee of £243,450 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Inverclyde Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In doing so, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.
13. 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.
14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

Our audit opinions were all unqualified.

There is a significant adjustment in the Council's pension liability and pension reserve (£9.9 million). A relatively small adjustment was also made to the pensions liability in group bodies.

Audit opinions on the annual accounts

15. The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Council on 27 September 2018. We reported, within our independent auditor's report that, in our opinion:

- 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 guidance.

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

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

Submission of the Council and its group annual accounts for audit

17. We received the unaudited annual accounts on 28 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

18. 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.

Risk of material misstatement

19. [Appendix 2](#) provides a description of the assessed risks of material misstatement identified during the planning process that had the greatest effect on the overall audit strategy, the allocation of resources to the audit and direction of the efforts of the audit team. Wider audit dimension risks identified are also reported.

Materiality

- 20.** 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. It is affected by our perception of the financial information needs of the users of the financial statements.
- 21.** 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.
- 22.** On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£3.2 million
Performance materiality	£1.6 million
Reporting threshold	£100,000

Source: Audit Scotland, Annual Audit Plan 2017/18

Significant findings from the audit in accordance with ISA 260

- 23.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.
- 24.** The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Pensions scheme valuation</p> <p>The Council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets reported in the Council's balance sheet being understated by £9.9 million.</p> <p>The same issue also affected group entities, with the Council's share of investments in Associates understated by £0.2 million and the liabilities in associates overstated by £0.1 million.</p>	<p>This issue occurred across the local government sector. The Council's pension fund assets, based on the latest valuation at 31 March 2018, were increased. This has the impact of reducing the pension fund net liability by £9.9 million. The impact on the group statements was to increase the Council's share of investments in Associates by £0.2 million, and to reduce its share of liabilities by £0.1 million.</p> <p>The audited financial statements include the adjusted values.</p>
<p>2. Schools Public Private Partnership (PPP)</p> <p>Disclosures in the unaudited accounts for note 15 – schools PPP overstated the amounts paid by the Council. This resulted in the balance outstanding at the year-end being understated by £0.2 million. There is no impact on the cost of services, but net assets in the balance sheet were overstated by £0.2 million.</p>	<p>The audited financial statements include the adjusted values.</p>
<p>3. Integration Joint Board (IJB) reserves</p> <p>The Council holds £5.8 million of reserves on behalf of Inverclyde IJB. In the unaudited accounts the amount had been included under short term borrowing in error. In the prior year the IJB's reserves had been included as a short-term creditor.</p>	<p>The audited financial statements include the adjusted values.</p>
<p>4. Financial ratios</p> <p>Financial indicators disclosed in the management commentary are consistent with the financial statements and our understanding of the Council. The basis of calculating some indicators are, however, inconsistent with the previous year's methodology.</p>	<p>Management should adopt a consistent approach to calculating and reporting financial indicators in the management commentary.</p> <p> Recommendation 1 (refer Appendix 1, action plan)</p>

How we evaluate misstatements

- 25.** Total errors exceeded our overall performance materiality of £1.6 million. We consider that we have identified in full the adjustments to reflect the change in pensions valuation in the Council and in its group. We also identified the misclassification of Inverclyde Integrated Joint Board's (IJB) reserves balance within non current assets. All the other misstatements taken together did not breach our performance materiality. We have concluded that the errors are contained and do not indicate further systematic error within account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.
- 26.** It is our responsibility to request that all misstatements are corrected although the financial decision on this lies with those charged with governance considering advice from senior officers and materiality. All adjustments have been corrected in the audited financial statements.

Follow up of prior year recommendations

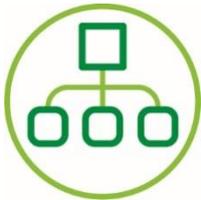
27. We have followed up actions previously reported and assessed the Council's progress with implementation; these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
28. One agreed action was raised in the 2016/17 annual audit report. This related to a deficit in the common good fund, with the Council agreeing a plan to return the fund to a target balance of £100,000 within five years. The balance increased by £12,000 in 2017/18. This resulted in a cumulative reserves balance of £7,000 at the end of the year. Officers have advised that the cumulative balance is forecast to increase to £24,000 in 2018/19 and a proposal has been approved to sell a common good asset during 2018/19 which is expected to have a further positive impact on the year-end position.
29. Ten improvement actions were also agreed in the Council's Best Value Assurance Report (BVAR) issued in June 2017. Progress against the BVAR is outlined at [paragraph 75](#).

Other findings

30. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Part 2

Financial management



Main judgements

The Council's budget for 2017/18 was based on a planned use of uncommitted reserves and did not include any new savings plans.

The Council reported an underspend of £2.8 million and didn't need to apply uncommitted general fund reserves.

The Council reduced its committed general fund reserve balance by £9.3 million. This was mainly as a result of increased contributions to capital projects and a planned reduction of equal pay, environment and regeneration, and smoothing reserves.

The capital programme for 2017/18 was delivered and funded without additional borrowing.

The Council's budget for 2017/18 was based on a planned use of uncommitted reserves and did not include any new savings plans

31. In February 2017 the Council approved a revenue budget of £190 million for 2017/18. £1.1 million of uncommitted reserves was identified to balance the 2017/18 budget. No new savings were assumed in the approved budget for 2017/18.
32. The Chief Financial Officer highlighted to members in February 2017 that the proposed use of reserves to meet funding gaps was a short-term, one-off measure on the basis that the new Council formed in May 2017 would address this issue.

The budgetary process is good and budgetary reports through the year forecast the developing underspend

33. The Council's approach to budget monitoring and control was reviewed in the [Best Value Assurance Report \(BVAR\)](#) published in June 2017. The Council's approach to budget management is to focus on pressure areas to help reduce future savings requirements. Forecasts in general fund revenue budget reports presented to the Policy and Resources Committee throughout the year projected the developing underspend.

The Council reported an underspend of £2.8 million and didn't need to apply uncommitted general fund reserves

34. The Council reported an underspend of £2.4 million for all service committees and an increase in tax and funding of £0.4 million against the revised net budget of £168 million.

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

35. The main areas of underspend are summarised in [exhibit 4](#). Across all service committees the Council achieved savings of £1 million due to an over achievement of employee turnover. In Policy and Resources inflation contingencies of £1 million were not required, while Education and Communities and Health and Social Care achieved early savings of £0.3 million combined against the 2018/20 plan.

The committed general fund reserve balance reduced by £9.3 million

36. The Council carried a significant usable reserves balance of £60 million forward from 2016/17, In line with financial plans the general fund reserve balance reduced by £9.3 million. The reduction is in part due to a change in policy relating to revenue contributions to capital projects. The Council now uses this reserve to fund capital projects as opposed to undertaking new borrowing. It is also due to the planned use of other earmarked reserves, with notable reductions to equal pay, environment and regeneration, and smoothing reserves.
37. 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 within the general fund revenue budget monitoring reports.

Efficiency savings were achieved in 2017/18, but there were no new savings activity

38. The Policy and Resources Committee routinely receives budget monitoring reports including savings plans which have been risk assessed.
39. The annual return to the Scottish Government indicated that £1.5 million of savings were planned in 2017/18. These savings were identified as far back as February 2015. The Council achieved actual savings of £1.5 million in year, with efficiencies covering a wide range of areas including asset management, service commissioning, streamlining bureaucracy, procurement and increased turnover targets.

The capital programme for 2017/18 was delivered

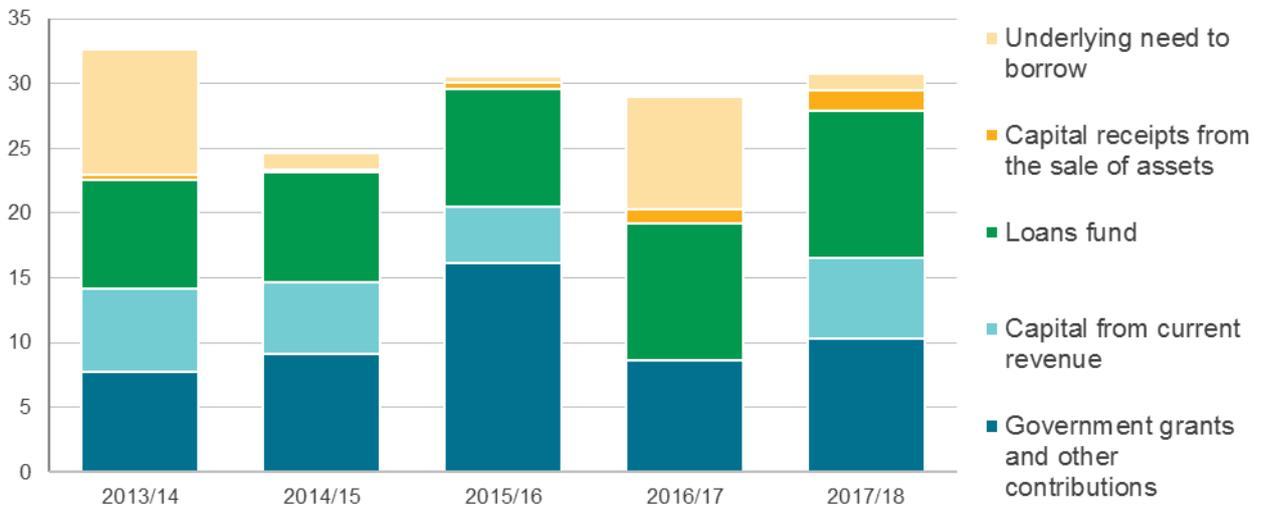
40. In 2017/18, overall capital spending was £31 million (2016/17 - £29 million). This was only slightly below budget (£0.4 million).

The Council's borrowing reduced in 2017/18 and future capital plans depend on internal funding and government grants

41. The 2018-2021 capital programme does not contain any new prudential borrowing on the basis that further increases to the cost of council debt servicing would place unnecessary strain on the Council's future budget. The Council continues to use internal funding and government grants, supplemented by already approved limited long-term borrowing commitments. Since 2013/14, the Council's external borrowing has continued to reduce due to repayment of maturing debt without undertaking new borrowing.
42. The sources of finance for capital expenditure that the Council has used since 2013/14 is outlined at [exhibit 4](#).

Exhibit 4

Sources of finance for capital expenditure

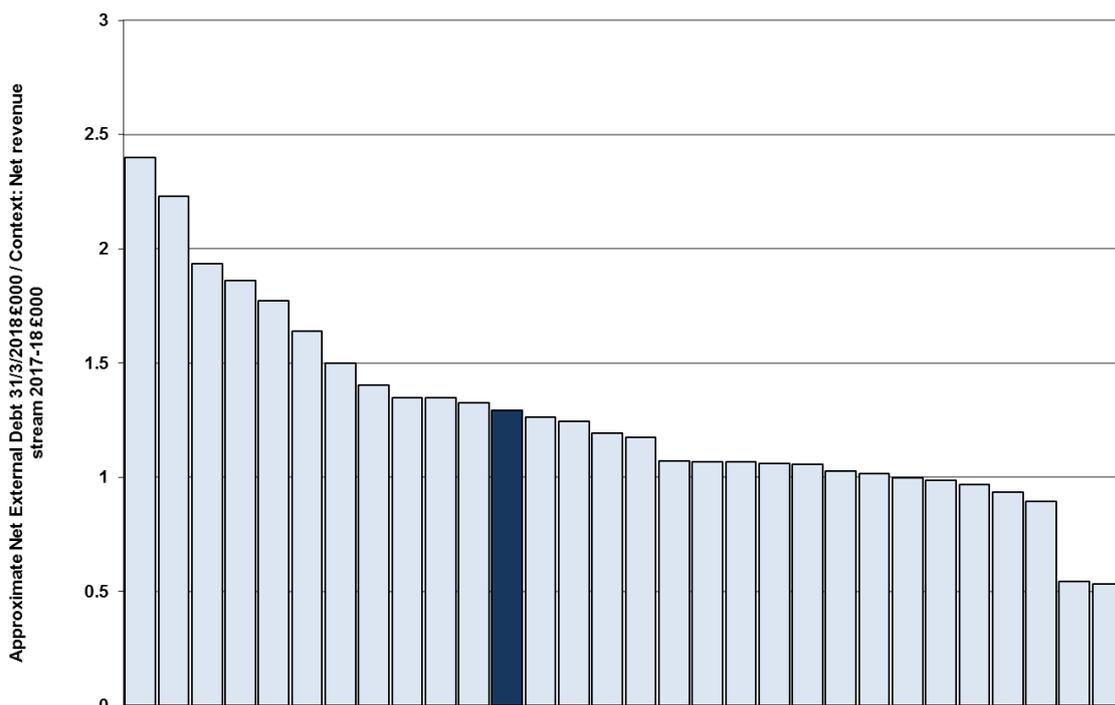


Source: Inverclyde Council annual accounts

- 43. The Council's outstanding loans at 31st March 2018 were £274 million, a £3 million reduction from the previous year.
- 44. The Council's level of borrowing and external debt, compared to other councils, is slightly above average.

Exhibit 5

Net external debt relative to the size of council's net revenue



Source: 2017/18 Unaudited financial statements

Systems of internal control

45. 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.
46. Our findings were included in our [interim audit report](#) that was presented to the Audit Committee in August 2018. No significant issues were identified from our controls work, which enabled us to proceed with our planned audit approach for the 2017/18 financial statements.

Part 3

Financial sustainability



Main judgements

The Council faces financial challenges and delivered savings of £5 million in 2018/19 with an estimated further £15 million of savings required over the period 2019 to 2022.

The Council has good medium term financial planning and a longer term financial strategy. Officers have developed savings options totalling £11 million for 2019/21.

The Council continues to have relatively high levels of general fund reserves despite the reduction in 2017/18, but most of these are earmarked.

The 2018/19 budget is based on achieving further savings of £3.0 million, but no further reductions in uncommitted reserves

47. 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 £3.0 million would be met through savings. The budget projected that £1.9 million of these savings would be identified by service committees and £1.1 million through public consultation. The full year impact of the approved savings is £5 million.

The Council has good medium term financial planning and a longer term financial strategy

48. The [BVAR](#) on Inverclyde Council identified that the Council has a good process in place for financial planning. The Council's financial strategy covers the eight-year period 2018 to 2025. It is updated on a six-monthly basis and ensures 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 2018 to 2022 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 £3.8 million in 2019/20 and an additional £11.2 million over the period to 2022. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2019 to 2022 are £2.8 million and £31 million respectively. We understand that officers are in the process of reassessing the projected funding gap.

50. Officers have developed detailed savings proposals for consideration by elected members. These proposals provide options totalling approximately £11 million in 2019/20. They are based around service reduction, service withdrawal and income generation.

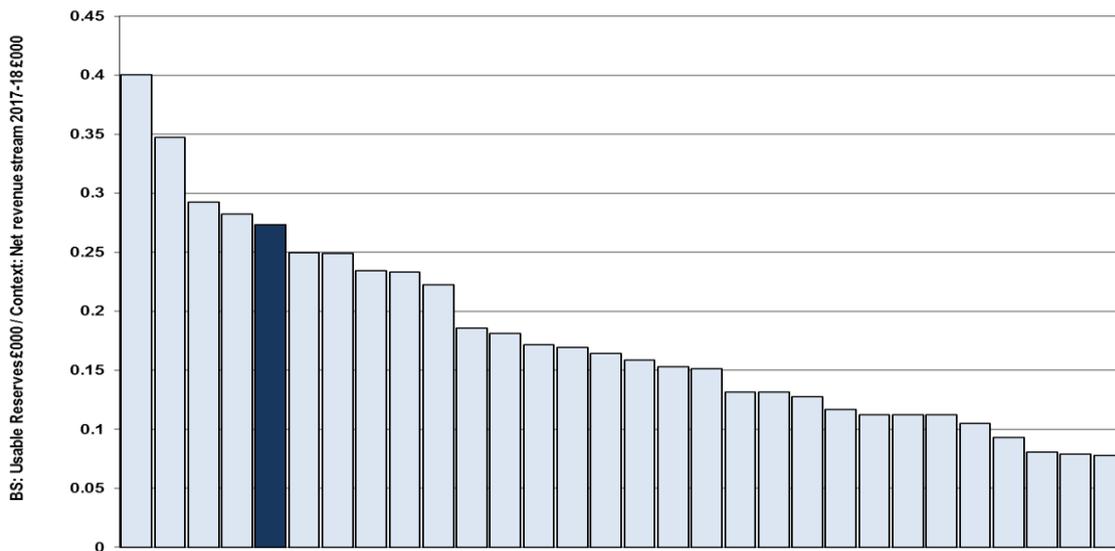
Financial sustainability looks forward to the medium and long term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered

The level of general fund reserves is high in comparison to other councils

51. The Council continues to have relatively high levels of reserves despite the reduction in 2017/18 as detailed in [exhibit 6](#), but most of these are earmarked. The Council recognise that reliance on reserves to fund revenue shortfalls is not sustainable in the medium to long term.

Exhibit 6

Usable reserves as a percentage of net revenue stream (all Scottish councils)



Source: 2017/18 unaudited financial statements

52. £11 million of usable reserves are held in statutory reserves (capital fund, insurance fund and repairs and renewals fund) with £41 million in the general fund reserve.
53. The BVAR published in June 2017 noted that a number of significant earmarked reserves had been maintained by the Council over many years and were not always clearly distinguished as capital or revenue in nature. A detailed review of earmarked reserves was undertaken as part of the 2018-2019 revenue budget. Following discussions as part of the 2017/18 audit process, officers agreed to amend the narrative description of some reserves to improve clarity and transparency.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate governance arrangements in place that support decision making and scrutiny and conducts its business in an open and transparent way.

The Council is making progress with its cyber security arrangements, and has been awarded Cyber Essentials certification

The Council's governance arrangements are appropriate and support good governance and accountability

54. 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.
55. The changes were made to take account of the Council's decision in February 2018 to approve a number of changes to the committee and senior management structures of the Council. Following the 2017 local elections, it was also agreed to alternate representation on the Council's main committees and boards to achieve political balance.

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

56. The evidence that demonstrates the Council's commitment to transparency includes:
 - 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.
57. 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.

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.

Internal audit operates in accordance with standards

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

The Council made good progress with the National Fraud Initiative

59. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. We reported that the Council had made good progress in our [interim management letter](#) in July 2018.

The Council has appropriate arrangements in place for the prevention and detection of fraud and error

60. 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.
61. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption.
62. On 21 September 2018 following a public hearing the Standards Commission for Scotland decided to formally censure an Inverclyde councillor for failing to declare any interest in a planning application made by a friend. The hearing panel recognised that there was no personal gain and acknowledged that the councillor had apologised unreservedly. It also reiterated that the requirement to declare interests is an integral part of the Councillors' Code of Conduct as it provides the opportunity for openness and transparency in a councillors' role.

The Council is making progress with its cyber security arrangements, and has been awarded Cyber Essentials certification

63. Inverclyde Council has been awarded the Cyber Essentials certification and is scheduled to complete Cyber Essential Plus certification by October 2018. The Council are PSN accredited and the Cyber Essentials pre-assessment check showed no significant concerns.

City Deals

64. Three City Deal infrastructure projects are being developed in Inverclyde, with funding of £27 million. These have proceeded at a slower rate than originally anticipated due to the complex nature of the projects. The Council has, however, continued to work with private sector partners to overcome the associated challenges.
65. Plans have now been submitted to develop the Ocean Terminal. The proposals include a museum celebrating the work of artist George Wyllie which were developed in partnership with the Dunard Trust. As detailed at [paragraph 75](#) the Council has advised that it aims to be onsite in 2019 for both the Ocean Terminal and Inverkip projects.

Workforce planning

- 66.** Inverclyde's [BVAR](#) reported that the Council has an overarching workforce strategy and is developing succession planning, but recommended that more detailed workforce plans and longer-term forecasts of workforce numbers and skills are required. The Council agreed to conduct an analysis of workforce data and learning needs including future workforce requirement. A succession planning programme was also going to be introduced in consultation with key stakeholders. Progress against these Best Value recommendations and the Council's proposed improvement actions was reviewed as part of our 2017/18 audit.
- 67.** Workforce plans have been developed for all services, with service plans following the same themes as the overarching strategy. All plans cover a minimum three-year period and consider the likelihood of changes in demand, skills required and government policy.
- 68.** The Council also consulted the Improvement Service in preparing succession plans. These have been developed for all services and will be used to inform future workforce and service plans.
- 69.** Processes are in place to support monitoring, reporting and management of the overall impact of changes to the workforce on service delivery and performance. Operational performance is monitored through Corporate Development Improvement Plans (CDIPs) which incorporate workforce planning, and the citizen's panel provides information on customer satisfaction every six months. Established financial monitoring arrangements, will also provide assurance.
- 70.** The Council has made good progress in reacting to matters raised in the BVAR, with the agreed action on succession planning now complete and the workforce planning action on track. We will continue to monitor and report on developments in this area.

EU withdrawal

- 71.** There remains significant uncertainty about the detailed implications of EU withdrawal. 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 changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
 - Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.
- 72.** The Council does not consider it is significantly exposed to these risks.

Part 5

Value for money



Main judgements

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

The Council continues to explore shared services.

The Council continues to perform well against a range of national indicators, but comparative performance has reduced in 2016/17 compared to 2015/16.

The Council has made reasonable progress in progressing the Best Value Improvement Plan

- 73.** Best Value is assessed over the five-year audit appointment, as part of the annual audit work. This year we followed up the progress made by the Council in response to the [Best Value Assurance Report](#) published in June 2017.
- 74.** At its meeting in June 2017, the Council agreed the improvement actions within the BVAR and that a progress report would be submitted to the Policy and Resources Committee every six months.
- 75.** The most recent progress report against the Council's improvement plan was presented to the Policy and Resources Committee in September 2018. As detailed below this highlighted that of the ten agreed actions, the Council assessed that four had been complete (blue), three were classed as on track (green) and three had slight slippage (amber).

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

BVAR Recommendation	Council assessment	Comment
The Council and its partners should use the Local Outcome Improvement Plan (which will replace the SOA) to develop a single set of outcomes which simplifies the strategic and planning framework.	Blue - complete	The Inverclyde Outcomes Improvement Plan was approved by the Alliance Board in December 2017. The LOIP includes wellbeing outcomes and strategic priorities. Locality Plans are being developed. The LOIP also focuses on how impact on outcomes is measured.
Councillors should consider continuing with the Members Budget Working Group, given the financial challenges that exist and the key decisions that will need to be made	Blue - complete	The Council agreed unanimously to continue the group.

BVAR Recommendation	Council assessment	Comment
following the May 2017 local government election.		
Actions to deliver strategic improvements should identify the difference they are expected to make to the overall strategic outcomes, with milestones at key intervals.	Amber – slight slippage	A corporate plan has been developed which includes a number of performance measures to support each strategic priority. This aims to make it easier to assess if improved outcomes are being delivered. The Inverclyde Outcomes Improvement Plan has also been developed with a focus on how the Council measures the impact on outcomes.
Key corporate initiatives such as City Deal projects and shared services should be reflected in updated corporate planning documents.	Blue - complete	The Inverclyde LOIP including City Deal approved by Alliance Board in December 2017. Corporate Statement approved in February 2018 which refers to City Deal and shared services.
A detailed review of earmarked reserves should be undertaken with the new council as part of the 2018-20 revenue budget development.	Blue - complete	A review was completed and reported to Council in December 2017, with further decisions on the use of reserves approved in March 2018.
The Council should develop more detailed workforce plans and longer-term forecasts of workforce numbers and skills required.	Green – on track	Service workforce plans have been completed including longer term forecasts of workforce numbers and skills. A development group has been established to develop the workforce planning and learning and development agenda. Succession Plans have been completed.
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.	Amber – slight slippage	Outline business cases for Ocean Terminal and Inverkip have been approved. Final business cases are being progressed later than planned due to external partner delays. Current forecast is onsite work will begin in 2019 for both Ocean Terminal and Inverkip.
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	Amber – slight slippage	Draft locality plans are being developed featuring a strategic needs assessment of each area as well as summaries of community engagement. Plans will be finalised and presented to the Inverclyde Alliance Board in December 2018. No participation or asset transfer requests have yet been received by the Council Further work is required to identify the

BVAR Recommendation	Council assessment	Comment
initiatives including the transfer of assets and participatory budgeting.		resources required to deliver community empowerment. Participatory budgeting is being rolled out across 7 council wards.
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.	Green – on track	Service review reports are reported to relevant service committees as they are completed. The timing of reporting of some service reviews has been affected by the budget planning process.
The Council should embed the recent introduction of directorate change management groups to prioritise, manage and monitor service improvement activity.	Green – on track	Change management groups are now fully operational within directorates. Service reviews ensure corporate consistency and adherence to completion timescale.

- 76.** During 2017/18, we undertook detailed audit work to confirm progress on two improvement actions: financial management and workforce planning.
- 77.** Overall the Council has made reasonable progress in progressing its BVAR Improvement Plan, and we will continue to monitor the Council's response to the report throughout our audit appointment.

The Council continues to explore shared services

- 78.** The East Dunbartonshire, Inverclyde and West Dunbartonshire Councils' Shared Service Joint Committee became effective from 1 November 2016, establishing a governance framework for the potential sharing of services.
- 79.** In March 2017, Inverclyde and West Dunbartonshire Councils agreed to progress a shared service for roads and transportation, with Inverclyde Council acting as the lead Council. The first step in this process involves appointing a lead head of service. This appointment will strategically manage roads and transportation services across the two councils. They will also manage the development of strategic business cases for wider shared service opportunities such as ground maintenance, waste management and fleet management.
- 80.** Inverclyde Council advertised for this post in Spring 2018, however the recruitment campaign was postponed. We understand that the original proposals have been amended. The most recent proposal is for the partner councils to maintain separate roads and transportation services, with a shared head of service to be appointed. Inverclyde Council needs to be clear on the benefits that it hopes to achieve, and should ensure that any shared service agreement can deliver the desired outcomes.

[Recommendation 2 \(refer Appendix 1, action plan\)](#)

Community engagement has experienced some slippage

- 81.** The BVAR identified good examples of how the Council has involved the community in planning its services. The Inverclyde Alliance Community Engagement Strategy 2008-2018 forms the basis for how the Alliance partners work with and involve local communities and third-sector organisations, such as local voluntary groups.
- 82.** The Council has experienced slight slippage in implementing actions relating to community engagement following the BVAR. Actions include rolling out participatory budgeting across the seven council wards, with £50,000 allocated to each.

The Council continues to perform well against a range of national indicators, but comparative performance has reduced in 2016/17 compared to 2015/16

- 83.** The most recent *National Benchmarking Overview Report 2016/17* by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. The number of indicators the Council has in the top two quartiles (35) is the joint 5th highest across all Scottish councils. Notable performance and improvement include:
- The Council maintained its position as the top ranked council in the percentage of funded early years provision which is graded good/better;
 - The percentage of pupils gaining 5 plus awards at level 5 improved from 57 per cent in 2015/16 to 61 per cent in 2016/17. The Council's ranking improved eight places to 14th, putting it in quartile 2.
 - The percentage of adults satisfied with local schools increased from 87 per cent in 2015/16 to 89 per cent in 2016/17. The Council maintained its second place ranking out of all Scottish councils.
- 84.** In 2016/17, however, the performance of 59 per cent of the Council's indicators were in the top two quartiles compared to 68 per cent in 2015/16. In 2014/15 just under half (49 per cent) of indicators were in the top two quartiles. So following relative overall improvements in 2015/16 performance compared to other councils has slipped in 2016/17. Areas where performance declined in 2016/17 include:
- The percentage of pupils entering positive destinations reduced from 94.3% in 2015/16 to 93.0% in 2016/17. The Council's ranking fell 11 places to 23rd, putting it in quartile 3.
 - The net cost of waste disposal per premise increased from £82.79 in 2015/16 to £94.45 in 2016/17. The Council's ranking fell six places to 17th, putting it in quartile 3.
 - The number of Business Gateway start-ups per 10,000 population reduced from 19.25 in 2015/16 to 12.76 in 2016/17. The Council's ranking fell ten places to 26th, putting it in quartile 4.

The Council's arrangements for publication are satisfactory.

- 85.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.
- 86.** For 2017/18 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.

National performance audit reports

- 87.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 4](#).
- 88.** 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 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Financial ratios</p> <p>Financial indicators disclosed in the management commentary are consistent with the financial statements and our understanding of the Council. The basis of calculating some indicators are, however, inconsistent with the previous year's method.</p> <p>Risk</p> <p>It is not possible to compare performance over the medium to long term using the financial indicators in the management commentary.</p>	<p>The Council should adopt a consistent approach to calculating and reporting financial indicators.</p> <p>Exhibit 3, page 9</p>	<p>Officers within Finance will review and document the approach for calculating ratios for use in future Annual Accounts.</p> <p>Chief Financial Officer</p> <p>March, 2019</p>
2	<p>Shared services</p> <p>Proposals for the sharing of roads and transportation services have been amended, with the most recent proposal being that the partner councils will maintain separate roads and transportation services, with a shared head of service to be appointed.</p> <p>Risk</p> <p>There is a risk that the Council do not achieve the desired benefits from shared service arrangements.</p>	<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>Paragraph 80</p>	<p>The Council will continue to receive six monthly updates on the effectiveness of the proposed arrangements to ensure the envisaged benefits are delivered</p> <p>Corporate Director Environment, Regeneration & Resources</p> <p>To April 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
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Follow up of prior year recommendations

b/f	<p>Common Good Fund</p> <p>At the end of 2016/17 the fund's revenue reserve was in a deficit position of £6,000. This is below the recommended minimum surplus of £100,000.</p>	<p>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>	<p>Ongoing</p> <p>As part of the 2017/18 budget process the Council implemented actions to enable the Common Good fund to reach its target balance of £100,000 within the next five 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>
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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 in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Results – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments 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 in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>The annual internal audit plan for 2017/18 includes specific corporate fraud reviews of:</p> <ul style="list-style-type: none"> • Code of Conduct – conflicts of interest / other remunerative employment • Commercial leases <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</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>The annual internal audit plan for 2017/18 includes specific corporate fraud reviews of:</p> <ul style="list-style-type: none"> • Council Tax Reduction Scheme – exemptions • Creditors – duplicate payments • Code of Conduct – conflicts of interest / other remunerative employment • Employee expenses 	<p>Results – We did not identify any significant issues in our testing of expenditure controls, although we reported areas where controls could be strengthened.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Commercial leases <p>The plan also allows for the oversight of arrangements for the National Fraud Initiative (NFI) exercise.</p> <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</p>	

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

<p>4 Best Value Assurance Report (BVAR) recommendations</p> <p>The BVAR made a number of recommendations related to the wider dimension risks.</p>	<p>The Council developed an improvement plan to address the recommendations made by Audit Scotland. The actions in the improvement plan have also been absorbed into the Corporate Directorate Improvement Plans (CDIPs) for the Council.</p>	<p>Results – The Council presented a BVAR improvement plan progress report to the Policy and Resources Committee in September 2018. This detailed that of the ten agreed actions four were complete; three were on target; and three had experienced slight slippage.</p> <p>Conclusion – Reported in section 5. We will continue to monitor progress.</p>
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Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	Scotland's colleges 2017
		Jul	NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Inverclyde Council

2017/18 Annual Audit Report

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