



Inverclyde Council

FINAL

**Annual Audit Report to the Council and the Auditor General
for Scotland**

1 December 2023

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Introduction

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Inverclyde Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2022-23 to 2026-27, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit Committee on 29 June 2023.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. The reports incorporates both aspects of the Code.

Accountable officer responsibilities

The Code sets out Inverclyde Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) issued by the Financial Reporting Council and the Code.

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.

External auditors do not act as a substitute for the Council’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Introduction

Limitations on work performed

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the auditing Code").

This report is for the benefit of Inverclyde Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Status of our audit

Our audit is now complete.

Audit Conclusions

Audit opinion

Following approval of the annual accounts by the Council on 16 November 2023 we issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2023, and of the surplus for the year then ended, on 1 December 2023. There are no matters identified on which we were required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Materiality - Group and Council

Total group expenditure
£432.4m

Total Council expenditure
£422.4m



Group materiality
£7.5m
1.74% of total expenditure

Council materiality
£7.4m
1.75% of expenditure



£375k (Group and Council)

Group: £5.625m
Council: £5.55m

Group: £7.5m
Council: £7.4m

Misstatements reported to the Audit Committee

Procedure designed to detect individual errors at this level

Materiality for the financial statements as a whole

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of gross expenditure which we consider to be appropriate as it reflects the scale of the Group/Council’s services and we consider this most clearly reflects the interests of users of the Group/Council’s accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality of £5.625m (Council: £5.55m). We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Group materiality vs other metrics

2022/23

Total assets **1.1%**

Total liabilities **2.5%**

The above percentages reflect our Group materiality level as a proportion of other key account balances (Total Assets and Total Liabilities) for 2022/23

Our audit findings

Significant audit risks	Risk Change since planning	Findings (Pages 9-14)
1 Retirement benefit obligations*	No change	We have identified that there was not a Management Review Control (MRC) to address the significant audit risk. No issues or misstatements have been identified as a result of our work.
2 Valuation of Land & Buildings*	No change	We have identified that there was not a Management Review Control (MRC) to address the significant audit risk. One non-material audit difference has been identified, which has been adjusted by management.
3 Fraud risk from expenditure recognition (cut-off of expenditure)	Refined to risk around cut-off of expenditure at year end	We did not identify any issues in relation to fraud risk from expenditure recognition.
4 Management override of controls	No change	We have not identified any instances of management override of controls.
Key accounting estimates	Judgement	Findings (Pages 15-16)
Retirement benefit obligations (LGPS)	Neutral	Overall we considered the assumptions underpinning the valuation of the LGPS obligation to be neutral / balanced.
Valuation of Land & Buildings	Optimistic	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have assessed that certain assumptions included in the valuation were optimistic, while not having a material effect on the overall valuation.

*We set out above the significant risks identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which are those marked * above. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

Our audit findings

Wider Scope and Best Value (Pages 19-33)

Under the Code of Audit Practice we are required to consider the areas defined in the Code of Audit Practice as wider-scope audit. We are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that we have done. Where significant risks are identified we will make recommendations for improvement. To consider how effectively the Council demonstrates Best Value in its delivery of services we consider the audit findings across the four audit dimensions. The Best Value section includes our conclusions relating to the audit dimension of Value for Money which contribute to the delivery of Best Value.

Uncorrected Audit Misstatements

Page 47

No uncorrected Audit Misstatements to report.

Corrected Audit Misstatements

Pages 47-48

There were three corrected audit misstatements greater than our trivial threshold, resulting in an overall charge to the CIES of £4.9m. More details can be found on pages 47 and 48.

Number of Control Recommendations

Pages 37-46

Priority one control recommendations	0
Other control recommendations	7
Wider Scope and Best Value recommendations	6
Prior year control recommendations remediated	2

Audit risks and our audit approach

1 Retirement benefit obligations

Significant audit risk

Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation

The valuation of the Local Government Pension Scheme (Strathclyde Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Additionally this year, the updated triennial valuation as at 31 March 2022 has been reflected in the accounts. This meant that we needed to perform additional procedures around new data inputs to the valuation such as updated membership data.

Our response

We performed the following procedures designed to specifically address the significant risk associated with the valuation:

Control design:

- We evaluated the design and implementation of controls in place for management to review the LGPS valuation and the appropriateness of assumptions used.

Assessing the actuarial expert's credentials:

- We evaluated the competency and objectivity of the Scheme actuaries, Hymans Robertson, to confirm their qualifications and the basis for their calculations.

Input assessment:

- We reviewed the input from the Council into the calculation of the LGPS valuation; and
- We agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation.

Assessing methodology and benchmarking assumptions:

- We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, salary increases and mortality/life expectancy against externally derived data where appropriate; and

Audit risks and our audit approach

1 Retirement benefit obligations (continued)

Significant audit risk

Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation (continued)

Assessing methodology and benchmarking assumptions:

- We confirmed that the accounting treatment and entries applied by the Authority are in line with the requirements of the Code.

Assessing transparency:

- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation, in addition to disclosures regarding the sensitivity of the Authority's defined benefit obligation to these assumptions.

Our findings

Our work is now complete in respect of this significant risk. We have not identified any audit adjustments or new control deficiencies. Our actuarial specialists have evaluated the assumptions applied in measuring the net pension liability and have found these to be balanced, while remaining within actuaries' acceptable range. More detail is available on Page 15.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. The threshold set for an effective Management Review Control is a high one, with various criteria that must be met including creating an independent expectation around amounts estimated. While we acknowledge that putting such a control in place would be impractical for a Council of your size, under Audit Standards we communicate to you that we have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards.

Audit risks and our audit approach

2 Valuation of land and buildings

Significant audit risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

The value of the Council's Other Land and Buildings at 31 March 2022 was £362.0m, in addition to Schools PPP assets of £93.8m. The Code requires that where land and buildings are subject to revaluation, their year end carrying value should reflect the fair value at that date. Any asset valuation carries with it risks of estimation uncertainty. The size of the land and buildings balance relative to our expected materiality means that the risk of a material difference between carrying value and fair value is increased.

For 2022/23, the Council commissioned a full revaluation of 20% of its land and buildings (by value), excluding infrastructure assets, in addition to indexation being applied to the remaining assets not formally revalued.

Our response

We performed the following procedures designed to specifically address the significant risk associated with the valuation:

Control design:

- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used.

Assessing the valuer's credentials:

- We critically assessed the independence, objectivity and expertise of Avison Young, the valuers used in developing the valuation of the Council's properties at 31 March 2023; and
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Code.

Input assessment:

- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified.

Assessing methodology and benchmarking assumptions:

- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous valuation. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions around physical and functional obsolescence;
- We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the Code; and

Audit risks and our audit approach

2 Valuation of land and buildings (continued)

Significant audit risk

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value (continued)

Our response (continued)

- We agreed the calculations performed of the movements in value of land and buildings and verified that these had been accurately accounted for in line with the requirements of the Code.

Assessing transparency:

- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

We have reviewed the data, assumptions and methodology involved in management's valuation of land and buildings and confirmed these were appropriate and consistent with the requirements of the Code. As outlined on Page 15, we identified a small number of areas in which the assumptions underpinning the valuation were found to be optimistic, while within our acceptable tolerance and not resulting in any material misstatements.

With respect to the execution of the accounting for the valuation in the financial statements, we identified a misstatement, which has been corrected by management, relating to the calculation of the revaluation reserve movement following the valuation. The adjustment results in a credit to the revaluation reserve and a debit (charge) to the CIES of £4.8m, with no overall impact on the general fund balance. More details around this and all other audit differences are contained in Appendix Three.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. The threshold set for an effective Management Review Control is a high one, with various criteria that must be met including creating an independent expectation around amounts estimated. While we acknowledge that putting such a control in place would be impractical for a Council of your size, under Audit Standards we communicate to you that we have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards.

Lastly, we also identified a presentational issue relating to the split between the opening cost and accumulated depreciation in Note 7 Property, Plant and Equipment. There is no impact on overall net book value at year end. Management is unable to adjust for this matter as it does not have the historic information necessary to apportion this difference between the different assets within the fixed asset register.

Audit risks and our audit approach

3 Fraud risk from expenditure recognition – cut off of expenditure

Significant audit risk

Risk: Liabilities and related expenses for purchases of goods or services are recorded in the incorrect period

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In our audit plan reported to you in June 2023, we outlined that we intended to rebut the presumed risk of fraudulent **revenue** recognition, as we considered that there are limited incentives and opportunities to manipulate the way income is recognised in a material way.

We continue to rebut this presumed risk. We also reported that we had not at the planning stage of our audit rebutted the risk around expenditure recognition, and noted that this was most likely to occur through recognition of expenditure in the incorrect period (cut off risk). Following completion of all of our planning and risk assessment activities, we concluded that **there is a significant risk around fraudulent expenditure recognition, specifically relating to the cut-off of expenditure.** This arises from a combination of incentives, including the incentive to deliver the overall budget outturn for the year, as well as incentives within services locally to use but not exceed allocated budgets by year-end.

Our response

We performed the following procedures designed to specifically address the significant risk:

- We evaluated the design and implementation of the controls in place for manual expenditure accruals;
- We inspected a sample of invoices of expenditure, in the period around 31 March 2023, to determine whether expenditure was recognised in the correct accounting period; and
- We performed a search for unrecorded liabilities by selecting a sample of expenditure items paid from the Council's bank accounts in the period following year-end, and confirming that those relating to 2022/23 expenditure was accrued appropriately at year-end.

Our findings

We have not identified any fraudulent expenditure recognition during our testing. We have not identified any material misstatements from our completed procedures.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. We have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. However the Council has a number of year end processes including a journal approval process which authorises the year end accruals as they are entered into the General Ledger; and budgetary controls that assist in identifying unusual or unexpected variances from budget. Management consider these arrangement sufficient to address the risk they face.

Audit risks and our audit approach

4 Management override of controls

Significant audit risk

The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation and, where appropriate, tested the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate;
- We analysed all journals through the year and focused our testing on those with a higher risk, such as journals with unusual expenditure code combinations;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We reviewed the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual; and
- We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements.

Our findings

- We identified 47 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.
- We evaluated accounting estimates and did not identify any indicators of management bias. See page 15 for further discussion.
- We did not identify any significant unusual transactions.
- We did not identify any issues from our related parties testing.

Key accounting estimates – Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions. Cautious means a smaller asset or bigger liability; optimistic is the reverse.

Asset/ liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Assets					
Valuation of other land & buildings		386	+24		<p>Assumptions in respect of the indexation applied to those assets not subject to full revaluation were found to be optimistic in two respects: the overall movement calculation did not take into account the fact that the indexation movement should also be ‘depreciated’ to reflect that the properties are one year older than the previous year-end; and non-specialised properties subject to indexation (primarily retail and office space) had a -5% indexation applied, whereas available market indices suggest that this could be as high as a 20% reduction. However the effect of these matters did not result in any material audit differences. Other assumptions were considered to be balanced. Our view of the disclosures of the judgements is neutral, best practice disclosure of Valuation estimates would include sensitivity analysis.</p>

Key accounting estimates – Overview

Our view of management judgement (continued)

Asset/ liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Liabilities					
LGPS Defined Benefit Obligation		15	+40		<p>KPMG actuaries have reviewed the actuarial valuation for the Strathclyde Pension Fund, considered the disclosure implications and compared the actuarial valuation to our internal benchmarks. Overall we consider the assumptions adopted to be balanced.</p>

Other estimates

We have also reviewed the following non-significant estimates as part of our audit work

- Depreciation

Group involvement – significant component audits

Involvement in group components

The Group financial statements are made up of the following components:

- Inverclyde Council (Parent) (**significant**);
- Inverclyde Integrated Joint Board (**significant**);
- Inverclyde Trust and Common Good funds (non-significant);
- Inchgreen Marine Park Ltd (non-significant);
- Strathclyde Partnership for Transport (non-significant);
- Strathclyde Concessionary Travel Scheme Joint Board (non-significant);
- Renfrewshire Valuation Joint Board (non-significant);
- Riverside Inverclyde (non-significant); and
- Inverclyde Leisure (non-significant).

As communicated in our audit plan we determined that the parent Council and the Inverclyde Integrated Joint Board were significant components. We have performed risk assessment procedures over the remaining components in order to confirm that there were not material balances within the other entities that could cause a material error and did not identify any exceptions.

We did not identify any errors as a result of the procedures set out above.

Other matters

Annual report

The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.

We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.

- We have not identified any inconsistencies between the contents of the Management Commentary and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the Management Commentary. As a Council you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Council's performance, business model and strategy.
- We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

The fee for the audit was £298,629. We have not completed any non-audit work at the Council during the year.

Wider Scope and Best Value

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit.

Auditors should consider these additional requirements when:

- identifying significant audit risks at the planning stage;
- reporting the work done to form conclusions on those risks; and
- making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

The new Code of Audit Practice has refreshed the areas used to define the wider audit scope. The previous 2016 edition set out four areas (described as audit dimensions), i.e. financial management, financial sustainability, governance and transparency, and value for money.

The new Code no longer uses the term audit dimensions, but it retains the areas of financial management and financial sustainability (though redefines each area) and replaces the other two as follows:

- governance and transparency dimension has been replaced with vision, leadership and governance area
- value for money dimension has been replaced with use of resources to improve outcomes.

Commentary on arrangements

We have prepared our commentary on the Council's Wider Scope arrangements within this report.

- Financial Management – Page 20;
- Financial Sustainability – Page 23;
- Vision, Leadership and Governance – Page 25; and
- Use of Resources to Improve Outcomes – Page 28.

We have also reported on Statutory Performance Indicators on Page 30 and Climate Change on Page 31, as required by Audit Scotland.

Lastly, in addition to our separate Thematic report on Best Value, we have also summarised our findings in relation to Best Value on Pages 32 and 33.

Summary of findings

We have identified a small number of matters for the Council's attention in relation to our Wider Scope work and have made two recommendations in Appendix Two of this report.

We have identified a number of matters for the Council's attention in relation to our Best Value work, and have made a total of four recommendations in Appendix Two of this report.

Wider Scope arrangements

Financial Management

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

Budget setting

The Council formally approved the 2022-2023 budget on 24 February 2022. Spend of £220.4 million was planned in 2022-2023 after taking account of Government Grants, inflation, borrowing costs and approved savings.

The Council's financial performance shows a deficit on the provision of services of £26.642million (of which amount chargeable to general reserve amounts to £12.17 million) as opposed to the budgeted deficit/surplus of nil. The annual accounts provide a reconciliation between the planned and actual deficit.

The Council approved a £64.1 million three-year capital investment programme covering 2022-2025, of which £36.9 million would be funded by the Council with the balance met from government grants. The major areas of planned investment were the ongoing programme of construction and refurbishment of schools, key improvements to the roads and lighting infrastructure, construction of a new Learning Disability facility plus significant capital work on other Council assets.

The Council continues to make significant capital investment with £26.5 million being spent in 2022-23. Funding of capital expenditure included £0.04 million from capital receipts, £16.9 million of government grants with the balance of £10.5 million being met through internal funding and borrowing.

The net worth of the Council has increased by £62.521m from £298.640m as at 31 March 2022 to £361.161m as at 31 March 2023. The main contributors to this are increase in PPE and decrease in pension liability amounting to £29 million and £40.1 million respectively. PPE increased due to the council's investment in key capital projects and the effect of asset revaluation while the decrease in pension liability has resulted from the actuarial valuation.

In March, 2023 the Council agreed its 2023/24 budget. Savings of £7.6m were approved during the budget process, an increase on Council Tax of 5.3% with a further £3.0m approved Use of Reserves to balance the 2023/24 Revenue Budget.

Budget Monitoring

We observed that senior management and members receive regular and accurate financial information on the council's performance against budgets. The body has appropriate budget setting and monitoring arrangements.

Wider Scope arrangements

Financial Management (continued)

Internal Audit

The Council's Chief Internal Auditor has responsibility for independently reviewing and reporting to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of conformance with the PSIAS.

The Internal Audit service undertakes an annual programme of work, approved by the Audit Committee, based on a strategic risk assessment. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control.

A follow up process is in place which ensures that all actions arising from internal audit reviews are captured within a follow up database and are subject to follow up and validation by the Internal Audit on a regular basis, with reporting on progress to the Audit Committee. Regular updates are provided to the audit committee in the form of internal audit progress reports.

Internal controls

As part of our audit, we identify and assess the key internal controls relevant to our audit. Our objective is to plan and seek assurance, where relevant, that the body has controls around recording and processing transactions to provide a sound basis for the preparation of the financial statements.

Overall financial systems of internal control operated effectively, with the exception of those matters on which we have raised recommendations in Appendix Two, none of which represent significant deficiencies in internal control.

Fraud prevention mechanisms

The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption enacted through the anti fraud and corruption policy. We noted that the policy was last reviewed and updated in 2017. We recommend periodic review and update of this policy, at least every three years.

(Recommendation One)

The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We note that the council recognised the need for and participates in the initiative. We understand that a progress report is planned to be presented to the audit committee in relation to the results of the latest matching exercise.

Wider Scope arrangements

Financial Management (continued)

Financial regulations

We noted that the standing financial regulations are comprehensive and have been approved dated 17th February 2022. A copy of these are available on the website for public access.

Going Concern

The Council's Group Accounts have been prepared on a "going concern" basis as it is expected that future local government finance settlements, aligned with the budget process, which drives through efficiency savings, will provide sufficient resources to finance future liabilities.

Conclusions

- The 2023-24 budget was set in March 2023 and financial balance has been achieved in the short term.
- Overall financial systems of internal control are operating effectively,
- The Council's latest accounts are prepared on a going concern basis.
- Financial regulations are current and up to date.
- There are established procedures for preventing and detecting, however a periodic review of the anti fraud and corruption policy is recommended.

Wider Scope arrangements

Financial Sustainability

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

Medium term financial plan

The council's latest financial strategy update covers the period 2023/24 to 2032/33. It is updated on a six-monthly basis. The plan with the latest update was presented to the Council and approved dated 8 June 2023.

Revenue Forecasts

We note that the Financial Strategy covers the period 2023-33 in terms of identifying potential issues, **but the revenue forecasts are limited to the period which can be reasonably forecast (ie. 3 years from 2023/24 to 2025/26)**. The primary financial challenge, identified in the strategy, facing the Council over the coming period, given the continued pressure on public sector budgets, will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain the required level of investment in key infrastructure whilst contributing to the Net Carbon Zero targets and support the needs of the local community.

In preparing the Medium Term Financial Plan the following approach has been adopted:

- The base budget for prior year has been used as the basis for the Medium Term Financial Plan
- An analysis of anticipated pressures has been undertaken to inform future years projections
- A review of funding assumptions has been undertaken to determine the anticipated level of funding available for service delivery

The plan takes into account the cost pressures and identifies inflation (including pay inflation) as the main driver for future projections.

The Strategy takes into account key financial issues that are known or anticipated events and activities that have to be addressed within overall financial resources in the short-term (within 2 years), medium-term (within 4 years) or longer (over 4 years). Based on the above, scenario planning and sensitivity analysis has been undertaken to identify potential optimistic, pessimistic and mid-range outcomes of the plan. The funding gap identified as a result of this analysis ranges from £13.2 million to £22.6 million over the three year period to 2025/26.

Wider Scope arrangements

Financial Sustainability (continued)

Capital Projections

The Council agreed a 3 year Capital Programme covering 2023/26 in March 2023. A 5% overprovision was built in to allow for increased resources. This assumed Government capital support amounting to £20.9 million which is based on provisional settlement for 2023/24 and estimated amounts for 2025 and 2026.

Reserves Strategy

The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of approximately 2% of turnover. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in March 2023. Earmarked Reserves and the level of unallocated reserves are reviewed annually as part of the budget process.

Savings Plans

The strategy includes an action plan for addressing short, medium and long-term issues. The council plans to bridge funding gaps mostly through savings and the use of reserves. Savings plans from 2023/24 onwards have been developed and options have been presented to members. 2023/24 budget included approval of target savings over the coming three years amounting to £7.6 million. The targets are monitored as part of budget monitoring reports.

Conclusions

- The Council's MTFP is in place and appropriately takes into account scenario planning.
- The Council has a reserves strategy in place
- Savings plans to bridge the identified funding gaps are implemented and monitored.

Wider Scope arrangements

Vision, Leadership and Governance

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

The governance framework is the system by which the Council leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, cultures and values through which the Council strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability.

The Council has adopted a Local Code of Corporate Governance (“the Local Code”) consistent with the seven principles of CIPFA and the Society of Local Authority Chief Executives (SOLACE) framework, “Delivering Good Governance in Local Government Framework (2016)”.

The Council has adopted a code of conduct for its employees. Elected Members observe and comply with terms of the Councillors’ Code of Conduct. Comprehensive arrangements are in place to ensure Members and officers are supported by appropriate learning and development.

Strategy

The overarching strategic vision of the Council is detailed in the Council’s Plan which sets out the key outcomes the Council is committed to delivering with its partners. This was reviewed, updated and presented for the Council’s approval in April 2023. The approved plan is available for public’s access on the Council’s website.

Involvement of Stakeholders

Development of the Council’s plan was supported through multi-faceted, 8 week public consultation which concluded in January 2023. Alongside this consultation, the Inverclyde Strategic Needs Assessment was updated which informed the development of the plan. Reports enumerating the consultation and strategic needs assessment are published on the Council’s website for public access.

Setting and reporting of operational performance

The Council's Performance Management Framework sets out the process for target setting. The Performance Management Framework can be found on the Council Plan webpage. Priorities under the strategic plan are aimed to be delivered through committee delivery and improvement plans and service delivery and improvements plans.

Committee plans have been developed and approved for three year period from 2023 to 2026 and include the performance targets for 2023/24. Service plans are currently in the process of development.

Wider Scope arrangements

Vision, Leadership and Governance (continued)

Setting and reporting of operational performance (continued)

Performance management and monitoring of service delivery is reported principally through the Policy & Resources Committee and to other Committees on a regular basis. The Council publishes information about its performance regularly as part of its public performance reporting requirements

Governance statement

As part of our audit process we continually assess the governance arrangements within the council and review the Annual Governance Statement in the annual report and accounts. Governance statement is review and approved by the relevant committees of the Council ahead of being published as part of the annual accounts. We concluded that arrangements are appropriate and operated effectively during 2022/23.

Standing Orders, Schemes of Delegation and Financial Regulations

The Council operates within an established procedural framework. The roles and responsibilities of Elected Members and officers are defined within the Council's Standing Orders and Scheme of Administration, Contract Standing Orders, Scheme of Delegation and Financial Regulations; these are subject to regular review.

We noted that scheme of delegation related to local developments was last reviewed and updated in 2016. We further note that review of integration scheme continues to be delayed. **(Prior Year Recommendation)**

Risk Management

The Council's approach to risk management is set out in the risk management strategy and is embedded within the Council's Strategic Planning and Performance Management Framework. Reporting on risk management is undertaken and reported annually to the Audit Committee.

We noted that risk management strategy has been reviewed and the updated draft is included in the agenda of the meeting of the audit committee scheduled for 24 October 2023 for consideration and approval.

Wider Scope arrangements

Vision, Leadership and Governance (continued)

Scrutiny, challenge and transparency

The status of progress of audit (external and internal) recommendations and action points are regularly reported and considered by the audit committee.

Council minutes and related documents are available on the website for public scrutiny.

The Council maintains a website where users can find further information about the Council's performance and the financial accounts, including other associated documents relating to strategies, policies and plans.

Conclusions

- Governance arrangements are appropriate and operated effectively.
- The Council's Scheme of delegation in respect of local developments was last reviewed and updated in 2016.

Wider Scope arrangements

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The Council's Performance Management Framework sets out the process for target setting. The Performance Management Framework has been refreshed in 2022/23 and can be found on the Council Plan webpage.

Performance management and monitoring of service delivery is reported principally through the Policy & Resources Committee and to other Committees on a regular basis. The Council publishes information about its performance regularly as part of its public performance reporting requirements.

The Council's annual performance report for 2021/22 is available for public access on the Council's website. As part of the review of minutes we noted the 2021/22 report being presented to the Policy and Resource Committee in November 2022 for consideration and understand that the 2022/23 report is also scheduled to be presented to the Policy and Resources Committee on 21 November 2023.

In relation to the reported performance report for 2021/22 we noted an overall negative trend in performance in relation to priority 5 "To safeguard, support and meet the needs of our most vulnerable families and residents". We noted that performance has deteriorated over time in 7 out of 12 measures coupled with the inability to meet the latest performance target in 4 out of 9 measures for which a target had been set. Further performance in relation to 4 of the measures for the latest period was not available as at the reporting date.

The Local Government Benchmarking Framework (LGBF) brings together a wide range of information about how all Scottish councils perform in delivering services to local communities. The LGBF assists Councils in benchmarking their performance in key areas and creates opportunities to identify and share good practice.

We noted that the link to LGBF dashboard is provided on the Council's website, which allows visualization of the council's performance by service areas and indicators. Additionally the council reports the same in summary in the form of a fact file which is available for public access.

As per the latest published data, the council's performance showed a deterioration when compared to the prior year and base year, in relation to 42% and 44% of the indicators on an overall basis, respectively.

In relation to the council's relative position over time, the percentage of indicators in top 2 quartile improved from 57% to 60% on an overall basis, however decreased from 50% to 38% with respect to the economic development category.

Wider Scope arrangements

Use of resources to improve outcomes (continued)

In addition, each directorate periodically reports on performance in the delivery of their CDIP to their relevant committee. Inverclyde Council publishes performance information on the delivery of the Education and Communities, Corporate Services and the Environment, Regeneration and Resources.

Performance is reported to:

- the Education and Communities Committee
- the Environment and Regeneration Committee
- the Policy and Resources Committee

From April 2023, the Council moved to a new planning model, known as Committee Delivery and Improvement Plans, with a Committee Plan developed for each three Committees listed above which lay out the targets for 2023/24. Service delivery plans along with the targets for the future year are in the process of development.

Conclusion

- Performance management arrangements provide a sound base for improvement of outcomes.

Wider Scope arrangements

The Publication of Information (Standards of Performance) Direction 2021 - Statutory Performance Indicators

The Accounts Commission issued a new Statutory Performance Information (SPIs) Direction in December 2021 which applies for the three years from 2022/23

The Direction requires the Council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).
- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2). The council has a dedicated public performance reporting webpage which further includes a dedicated sub-section in relation to Statutory Performance Indicators which provides:
 - a Snapshots of council performance over time. This is informed by the annual performance report (published in a different section of the website).
 - an overview of Inverclyde Council's latest performance as compared to peers in a form of fact file relating to LGBF. Additionally, link to LGBF dashboard is provided on the Council's website, which allows visualization of the council's performance by service areas and indicators over time.

Further details in relation to the performance outcomes are presented on the previous page.

Additionally the performance section of the website includes a sub-section relating to best value which provides documents/ links to relevant sections of the website in relation to internal and external assessments with respect to best value.

We note that the Council has made arrangements related to self evaluation of services however a program aimed specifically towards overall evaluation and reporting in relation to best value themes, on a council level, is not currently in place. (**Recommendation Two**)

Conclusions

- The Council has made arrangements to comply with the SPI Directions.
- Further work is required with respect to overall self evaluation in relation to Best Value Themes.

Wider Scope arrangements

Climate Change

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to specified questions which are intended to gather basic information on the arrangements for responding to climate change in each body.

The Net Zero Strategy 2021-2045 was approved in October 2021 and sets out Inverclyde Council's route map to achieving net zero greenhouse gas emissions by 2045.

The net zero strategy has two main targets i.e. delivery of carbon footprint reductions of 73% from 2021-2030/31 (on a 2012/13 baseline) through specific identified actions supporting this strategy and improvement to Net Zero by 2045.

The Strategy is planned to be implemented through a series of Action Plans. The 2022-2027 Action Plan was approved in November 2022 and provides the objectives and associated actions that will target carbon reductions over the five years of the initial plan subject to the limit of available funding. The following key components have been identified as part of the action plan:

- Governance: Embed sustainability into policies, systems and processes across Council Service areas;
- Significant Carbon Emitters: The scale of the proposed actions relates to the significance of the carbon emission to the Council's carbon footprint in the areas of Energy Use in Buildings, Transport, Streetlighting and Water, and Waste;
- Awareness and Behaviour Change: Raising awareness of how individual actions contribute to carbon footprint and climate change; and
- Offsetting: Action intended to compensate for the emission of greenhouse gases into the atmosphere.

Guidance has been published on the Council's website in relation to energy and water conservation and reducing carbon emissions.

An update on progress was presented to the Environment and Regeneration Committee in June and August 2023 and is published on the Council's website for public access.

The financial statements include narrative in relation to the climate change initiatives by the council. Areas of financial statements expected to be materially impacted include expenditure and property, plant and equipment, including vehicles.

Conclusion

- Appropriate arrangements have been put in place by the Council in relation to climate change.

Best Value arrangements

Best Value

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Under the new Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

There are the following four aspects to auditors' work:

- Follow-up and risk-based work (covered through our recommendations in Appendix Two)
- Service improvement and reporting (covered in this section)
- Thematic reviews (covered in this section and in our separate report)
- Contributing to Controller of Audit reports. (This council is not in-scope for current year)

Thematic reviews

Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2022/23 requires auditors to carry out an overview of the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. In carrying out the overview, auditors should answer the following questions:

- How clear is the new council vision and its priorities?
- How effectively have the views of citizens and communities been reflected in priorities and decisions taken by the council?
- How effectively do the council priorities reflect the need to reduce inequalities and climate change?
- How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the council's priorities?
- Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them?

An audit programme and supporting materials are provided to auditors on the Best Value Support site. Auditors are required to report their conclusions in a separate management report on this work using a template provided on the Best Value Support site. Auditors should report a summary of the findings and conclusions from this work in each council's 2022/23 Annual Audit Report.

Best Value arrangements

Best Value (continued)

Thematic reviews (continued)

As required by guidance we have issued a separate management report. A summary of our findings are as follows:

- The council has established a clear vision supported by revised priorities.
- The council has made arrangement to effectively engage with citizens and communities when developing the priorities.
- The council's priorities have a focus on the need to reduce inequalities and combat climate change.
- Council has developed plans to align with the new council plan however more work is needed to achieve this objective.
- The leadership of the Council has been effective in setting clear priorities and further needs to demonstrate sustainable plans for delivering them.

Overall the council continues to make progress in relation to securing best value. We note the following recommendations:

- We understand that the plans for six localities were last developed in 2020 and require refresh in light of the approval of the new partnership plan and the council plan. **(Recommendation Three)**
- We did not see any evidence of involvement of any particular equality group with respect to development of the plan **(Recommendation Four)**
- Some service workforce plans within Environment and Regeneration require to be refreshed in order to develop proposals which address wider issues relating to succession planning due to an ageing profile of some staff groups, staff retention challenges and single person dependencies **(Recommendation Five)**
- The council has a corporate assets management strategy spanning over a period of three years from 2019 to 2022. This is yet to be updated. **(Recommendation Six)**

Conclusions

- The council has established overall effective arrangements to secure best value, with scope for further improvements.
- We have noted four recommendations – see Appendix Two for more details.

Appendices

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Mandatory communications

Type	Statement
Our draft management representation letter	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2023.
Adjusted audit differences	<input checked="" type="checkbox"/> OK Appendix Three identifies three adjusted audit differences in excess of £375,000. These result in an overall charge to the CIES of £4.9m.
Unadjusted audit differences	<input checked="" type="checkbox"/> OK No unadjusted audit differences identified. See appendix Three..
Related parties	<input checked="" type="checkbox"/> OK There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<input checked="" type="checkbox"/> OK We communicate to management in this report all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving group management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Mandatory communications

Type	Statement
Significant difficulties	<input checked="" type="radio"/> OK No significant difficulties were encountered during the audit.
Modifications to auditor's report	<input checked="" type="radio"/> OK None.
Disagreements with management or scope limitations	<input checked="" type="radio"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="radio"/> OK No material inconsistencies were identified relating to other information in the Management Commentary. The Commentary is fair, balanced and comprehensive, and complies with the requirements of the Code.
Breaches of independence	<input checked="" type="radio"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="radio"/> OK Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	<input checked="" type="radio"/> OK The significant matters arising from the audit were discussed, or subject to correspondence, with management.

Recommendations followed up and raised

We have followed up the recommendations raised in the prior year by Audit Scotland. Below is a table of the actions and implementation. We have disclosed below the recommendations that are still ongoing with the current management response.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

Recommendations (followed up)

Total number of recommendations	Number of recommendations implemented or superseded with new recommendations	Number outstanding (repeated below):
5	2	3

#	Risk	Issue, Impact and Recommendation	Update October 2023
1	N/A	<p>Heritage Assets Valuation review</p> <p>The Council's heritage assets are valued at £18.0 million but have not been formally revalued since 2012. In addition, disclosures around the valuation frequency of Heritage Assets and Council policy on valuations was inaccurate and not reflective of actual practice.</p> <p>Risk: Heritage asset valuations are significantly out of date.</p> <p>Recommendation: The council should prioritise the revaluation of heritage assets in 2022/23.</p>	<p>During 2022/23, the Council has obtained an external valuation of the majority of heritage assets it holds (by value), resulting in a revaluation gain being recognised. There are plans for the remaining items within the collection to be valued during 2023/24.</p> <p>Recommendation implemented.</p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2023
2	N/A	<p>Directorate change management groups</p> <p>The council should embed the recent introduction of directorate change management groups to prioritise, manage and monitor service improvement activity. Appointment of a lead change officer and the production of a detailed Business Plan for shared services.</p>	<p>The Council's Delivering Differently Programme is reported to the Environment & Regeneration Committee. The Council also has a Change Management Programme with performance reporting. The Shared Services Committee meets twice yearly and a decision was made to disband Roads, Transport and Waste Shared Services.</p> <p>Recommendation implemented.</p>
3	N/A	<p>City Deal projects</p> <p>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>	<p>The Outline Business Case for the Inverkip project at Inverkip has been submitted. A report was considered by the Policy and Resources Committee seeking funding to meet additional construction costs</p> <p>The Inchgreen project is due for delivery in 2023/24 and Ocean Terminal projects has been delivered.</p> <p>Recommendation In Progress.</p>
4	N/A	<p>Communication and Engagement Groups</p> <p>Following feedback and learning in 2021/22, it has been agreed that the six Communication and Engagement Groups will continue in the locality areas and be further developed. The Integrated Joint Board will establish two formal Health and Social Care Locality Planning Groups - one for East Inverclyde and one for West Inverclyde.</p>	<p>Inverclyde HSCP are continuing to develop an Inverclyde East and West Locality Planning Group. Arrangements for having these in place are well progressed, with the first meeting of the groups scheduled to take place in early November 2023.</p> <p>The Alliance has previously set out ambitions to further develop Locality Planning in Inverclyde. In the interim our current arrangements with Communication and Engagement Groups continue and they had an important role in the consultation on the new Partnership Plan.</p> <p>Recommendation In Progress.</p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2023
5	N/A	<p>Local Development Plan</p> <p>The draft Local Development Plan (LDP) was submitted for consultation in August 2021 with responses to be considered before submission to Scottish Ministers.</p> <p>However, management have now revised the completion date to 30 April 2026. The council reports that this has been exacerbated by the delay in the outcome decision by the Scottish Ministers on the West of Quarry Drive application, until after the local government elections.</p> <p>This resulted in insufficient time to modify and continue preparation of the proposed plan, within the designated period, under the Planning (Scotland) Act 2006. Work will start afresh on a draft LDP based on the new guidance under the 2019 Planning (Scotland) Act.</p>	<p>In agreement with the Scottish Government, a new LDP will be adopted by March 2026.</p> <p>Recommendation In Progress.</p>

Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	<p>Duplicate suppliers identified through capital additions walkthrough</p> <p>Our walkthrough of capital additions identified that the invoice selected for walkthrough was paid twice, due to there being duplicate suppliers set up in the ledger with distinct supplier codes. As a result the system did not identify and flag that the invoice was a duplicate.</p> <p>Risk</p> <p>There is a risk of further duplicate payments occurring if duplicate payments are able to be made against the same supplier.</p> <p>Recommendation:</p> <p>We recommend that management conducts a review of all supplier codes to ensure no more duplicates exist.</p>	<p>All new supplier requests are checked by the Creditors Supervisor against existing suppliers to minimise duplication of Suppliers. In addition, regular reviews are conducted to identify duplicate suppliers.</p> <p>There can however be legitimate reasons for a supplier having more than one code.</p> <p>All relevant staff will be reminded of the need to ensure duplicate suppliers exist only when unavoidable and of the need for checks to be carried out to identify duplicate payments.</p> <p>Finance Manager (Corporate Services and Strategic Finance)</p> <p>December 2023</p>
2	2	<p>Central Corporate Risk Register</p> <p>The Council does not have a central Corporate Risk Register in place; instead, all services and directorates have their own register and these are managed locally.</p> <p>Risk</p> <p>Risks requiring escalation may not receive appropriate consideration at Council or appropriate Committee due to the absence of a Council-wide Corporate Risk Register that collects together all risks over a certain score.</p> <p>Recommendation</p> <p>We recommend that the Council introduces a Corporate Risk Register which features any risks above a centrally-agreed threshold score, in order that the Council and its Committees are able to assure themselves regarding the sufficiency of response to risks arising.</p>	<p>Whilst the thematic committees now receive risk registers which highlight risks relating to each committee's remit and strategic objectives, the refreshed Corporate Risk Register will be presented to Audit Committee then Policy & Resources Committee in January/February 2024 and will be prepared in line with the Strategy which is anticipated to be approved in November 2023. The Corporate Risk Register will then be reported to both Committees on an ongoing basis moving forward.</p> <p>Chief Executive/Head of Legal, Democratic, Digital & Customer Services</p> <p>March 2024</p>

Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
3	2	<p>Segregation of duties in journal entries processing</p> <p>Our walkthrough of processes and controls relating to journal entries posted in the ledger identified that there is no enforcement of segregation of duties in the processing of journals between the person creating/raising the journal and the person reviewing/approving the journal.</p> <p>Risk</p> <p>While many journals are reviewed by a secondary person, the fact that this step is not enforced increases the likelihood of inappropriate or erroneous journal entries being posted.</p> <p>Recommendation</p> <p>We would recommend that management considers enforcing through the ledger system the segregation of duties in the processing of journal entries. Where this is considered impractical, management should establish a periodic retrospective review of a report of all journals posted during the period, and these should be signed off by a senior member of Finance as appearing regular and in line with the normal course of business.</p>	<p>Procedure will be amended to ensure all journal entries are authorised ensuring segregation of duties.</p> <p>Finance Manager (Environment & Technical)</p> <p>December 2023.</p>
4	3	<p>Timeliness of preparation and review of bank reconciliations</p> <p>Our testing of bank account reconciliation controls during the year identified that while all reconciliations were up to date by the year end, some reconciliations were not prepared or reviewed in a timely way ie. within one month of the relevant month-end.</p> <p>Risk</p> <p>There is a risk that errors relating to cash postings in the ledger are not identified in as timely a manner as possible.</p> <p>Recommendation</p> <p>Management should ensure that all bank reconciliations are prepared and reviewed within one month of the relevant month-end.</p>	<p>All relevant staff will be reminded of the requirement to prepare and review bank reconciliations within one month of the period end.</p> <p>Finance Manager (Corporate Services and Strategic Finance)</p> <p>December 2023</p>

Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
5	③	<p>Formal process for Head of Service impairment reviews</p> <p>Our walkthrough of the annual impairment review process identified that Finance writes to all Heads of Service, asking them to report any indications of impairment. A positive response, even to confirm there are no issues to raise, is not required resulting in some returns not being provided.</p> <p>Risk</p> <p>There is an increased risk that impairment indicators will not be identified and reported, where Heads of Service are not formally required to confirm (the absence of) any indicators arising.</p> <p>Recommendation</p> <p>We recommend the impairment review process is amended to include the requirement for Heads of Service to provide a positive return confirming whether any impairment indicators have arisen during the year.</p>	<p>Instruction in year end pack will be amended and Officers will ensure returns are received, including nil returns, from all Heads of Service in future.</p> <p>Finance Manager (Environment & Technical)</p> <p>June 2024</p>
6	②	<p>Continuing to improve integrity of Fixed Asset Register</p> <p>We are aware that there have been historic issues with the Fixed Asset Register (FAR), resulting in management resuming the use of an Excel spreadsheet to record the FAR. We note that improvements have been made to this but we also identified some further areas for improvement. In particular we noted some items without an associated remaining useful life, resulting in an understatement in the depreciation charge which has been corrected by management.</p> <p>Risk</p> <p>There is an increased risk of misstatements in reported fixed assets balances.</p> <p>Recommendation</p> <p>We recommend that a further data integrity and cleansing exercise is undertaken in 2023/24 to ensure the integrity of entries across all fields in the FAR.</p>	<p>Data integrity review of FAR will be added to the Year End timetable and carried out on an annual basis.</p> <p>Finance Manager (Environment & Technical)</p> <p>June 2024</p>

Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
7	2	<p>Infrastructure Assets</p> <p>In August 2022, Audit Scotland issued updated guidance in regards to the accounting of Infrastructure assets. It stated that infrastructure Assets are held at depreciated cost, and what has been happening is that additional spend on roads has simply been added to the existing Cost less Depreciation, and the various Councils have not been able to provide / demonstrate that where assets are “replacing” (i.e. a new road surface) that the NBV of the initial road surface was removed / disposed of.</p> <p>As part of the guidance, councils which did not meet this requirement could utilise two statutory overrides.</p> <p>Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.</p> <p>Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is required to be a nil amount, and no subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.</p> <p>Inverclyde Council had to use both statutory overrides to ensure compliance with the updated guidance. KPMG considers the use of the overrides to constitute a control weakness.</p> <p>Recommendation</p> <p>We recommend that should Management wish to meet this requirement they will need to carry out a retrospective review of the methodology used to account for the infrastructure assets and update the methodology accordingly to ensure compliance with the guidance.</p> <p>This weakness did not impact upon our planned audit approach.</p>	<p>It is intended to continue to use both statutory overrides for the 2023/24 annual accounts.</p> <p>Officers will continue to review methodology to ensure compliance however this is considered a national issue. Officers will therefore keep abreast of national developments.</p> <p>Finance Manager (Environment & Technical)</p> <p>June 2024</p>

Recommendations raised (Wider scope and Best Value)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	<p>Fraud, Bribery and Corruption procedures and other policies out of date</p> <p>The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.</p> <p>There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption enacted through the anti fraud and corruption policy. We noted that the policy was last reviewed and updated in 2017.</p> <p>We identified through our planning and risk assessment activities that there are a number of other policies currently beyond their due date for review and updating, including:</p> <ul style="list-style-type: none"> ▪ Code of Practice on Teacher Competence; ▪ Employee Code of Conduct; ▪ Health and Safety Policy; ▪ Records Management Policy; ▪ Recruitment Selection Policy; ▪ Dignity and Respect at Work Policy; and ▪ Whistleblowing Policy. <p>Recommendation</p> <p>We recommend that all out-of-date policies are prioritised for updating and review / approval by Council or appropriate Committee as soon as is practicable.</p>	<p>The Corporate Quality Improvement Group has approved a corporate template for all policies and CMT are currently confirming all policies and their next review dates with an update due to go to Policy & Resources Committee in February 2024.</p> <p>A timetable for updating all policies will be approved as part of that report, with a suitable prioritisation.</p> <p>Head of Legal, Democratic, Digital & Customer Services</p> <p>March 2024 (for completion of timetable for updating of policies)</p> <p>All policies on new review timescales- March 2025</p>

Recommendations raised (Wider scope and Best Value)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	2	<p>Reporting on Best Value achievement and delivery</p> <p>The performance section of the Council's website includes a sub-section relating to best value which provides documents/ links to relevant sections of the website in relation to internal and external assessments with respect to best value.</p> <p>We note that the Council has made arrangements related to self-evaluation of services, however a program aimed specifically towards overall evaluation and reporting in relation to best value themes, on a council level, is not currently in place.</p> <p>Recommendation</p> <p>We recommend implementation of a process to report on overall best value achievement and delivery.</p>	<p>An approach to reporting and evaluation of best value at a council level will be devised and incorporated into the Inverclyde Council Performance Management Framework by March 2024, with implementation of the approach in 2024-25.</p> <p>Head of OD, Policy and Communications</p> <p>March 2024</p>
3	2	<p>Locality plans</p> <p>We understand that the plans for six localities were last developed in 2020 and require refresh in light of the approval of the new partnership plan and the council plan.</p> <p>There is a risk that locality plans do not align with the new strategic framework.</p> <p>Recommendation</p> <p>We recommend that locality plans are updated in line with the new partnership and council plan</p>	<p>The review of Inverclyde's locality planning model which will include refreshing locality plans will follow the conclusion of the Community Council review.</p> <p>Corporate Director (Education, Communities & Organisational Development)</p> <p>June 2024</p>
4	2	<p>Equality group involvement in plan</p> <p>We did not see any evidence of involvement of any particular equality group with respect to development of the plan.</p> <p>There is a risk that relevant equality input is not incorporated in the plan.</p> <p>Recommendation</p> <p>We recommend that a specific equality group within the council is identified and involved in the strategy setting process.</p>	<p>Equality groups will be involved in the development of the next Council Plan from 2027 and in the mid term review of the Partnership Plan in 2028.</p> <p>Head of OD, Policy and Communications</p> <p>From 2026/27</p>

Recommendations raised (Wider scope and Best Value)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
5	③	<p>Workforce planning</p> <p>Some service workforce plans within Environment and Regeneration are required to be refreshed in order to develop proposals which address wider issues relating to succession planning, due to an ageing profile of some staff groups, staff retention challenges and single person dependencies.</p> <p>There is a risk of ineffective work force planning.</p> <p>Recommendation</p> <p>We recommend that workforce plans are refreshed on a timely basis.</p>	<p>Refreshed workforce plans within Environment and Regeneration will be produced by June 2024.</p> <p>Director - Environment and Regeneration</p> <p>June 2024</p>
6	③	<p>Asset Management Strategy</p> <p>The council has a corporate asset management strategy spanning over a period of three years from 2019 to 2022. This is yet to be updated.</p> <p>There is a risk of obsolete and out of date policy resulting in ineffective asset management.</p> <p>Recommendation</p> <p>We recommend timely review and update of both strategies.</p>	<p>The Corporate Asset Management Strategy is scheduled to be updated and adopted by April 2024</p> <p>The ICT Strategy is due to be updated and adopted by September 2024.</p> <p>Head of Physical Assets/ Head of Legal, Democratic, Digital & Customer Services</p> <p>September 2024</p>

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

Unadjusted audit differences (£'000s)

No unadjusted audit differences identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) in excess of £375,000 identified during the course of our audit. The adjustments below have been included in the financial statements. We also identified a small number of disclosure adjustments, all of which were corrected by management.

Adjusted audit differences (£'000s)

No	Detail	CIES Dr/(Cr)	Balance Sheet Dr/(Cr)	Comments
1	Dr Depreciation Expense Cr Property, Plant and Equipment	441	(441)	We noted during our work on fixed assets that there were some data integrity issues around the depreciation charge, resulting in an understatement of accumulated depreciation. This has been amended by management.
2	Dr (Surplus) or deficit on the revaluation of non- current assets Cr Revaluation Reserve	4,817	(4,817)	We noted during our testing of the year-end revaluation that there was a charge for impairment to the revaluation reserve relating to the new Ocean Terminal building which did not have an associated revaluation reserve balance. This has been amended by management.
3	Dr Revaluation Reserve Cr Heritage Assets		2,186 (2,186)	We noted during our work on Heritage Assets that included in the balance was a 'contingency' of £2.1m which had been included for some years following internal advice in order to reflect the expected increased value of the collection over time. As the majority (by value) of the Heritage Assets were formally revalued during 2022/23, we consider that retaining this contingency within the valuation is inappropriate. This has been amended by management.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of the Inverclyde Council.

Professional ethical standards require us to provide to you with a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not provided any non-audit services in year.

Confirmation of Independence (continued)

We have considered the fees charged to the Council for professional services provided during the reporting period. Total fees charged can be analysed as follows:

Entity	2022/23	2021/22
Auditor Remuneration **	£233,700	£168,780
Pooled Costs	£0	£17,590
PABV Contribution	£55,820	£69,960
Audit Support Costs	£8,860	£9,010
Sectoral Cap Adjustment	£240	-
TOTAL AUDIT FEES (Incl VAT)	£298,620	£265,340
Fees for non-audit services	-	-

(** the average of tender values which may differ from what KPMG receives)

Source: Audit Scotland

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

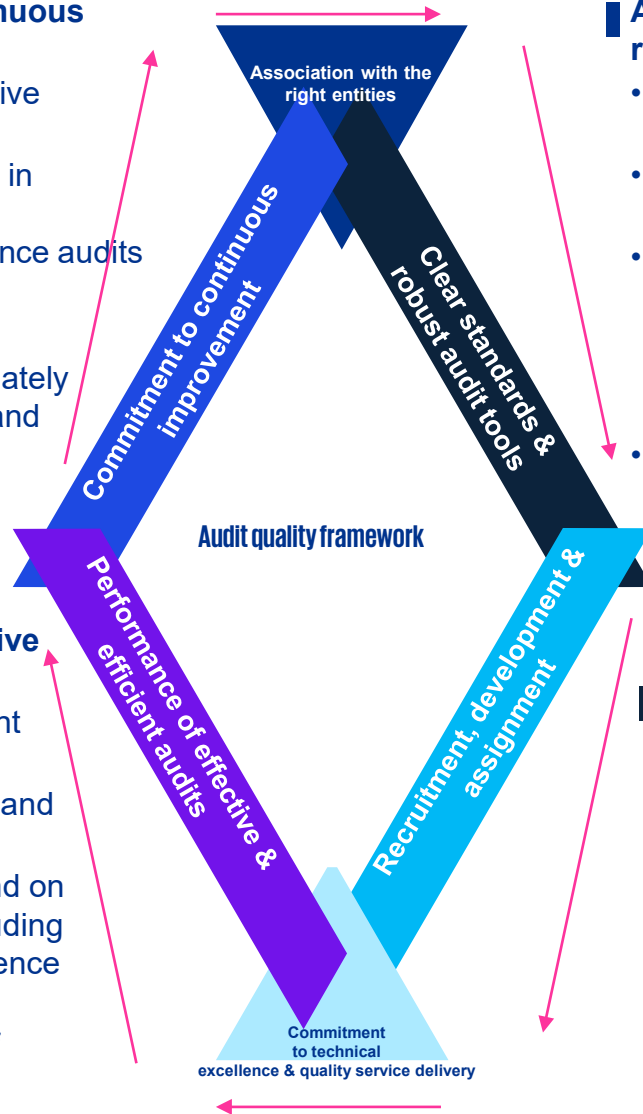
- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



ISA (UK) 315 Revised: Overview

Summary

ISA (UK) 315 Identifying and assessing the risks of material misstatement incorporates significant changes from the previous version of the ISA.

These have been introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA is effective for periods commencing on or after **15 December 2021**.

The revised standard expands on concepts in the existing standards but also introduces new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

Why have these revisions been made?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes are aimed at (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard’s scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

What did this mean for our audit?

To meet the requirements of the new standard, auditors have been required to spend an increased amount of time across the risk assessment process, including more detailed consideration of the IT environment. These changes have resulted in significantly increased audit effort levels which in turn, has affected auditor remuneration. This additional effort is a combination of time necessary to perform the enhanced risk assessment procedures in our audits.






ISA (UK) 240 Revised: Summary of key changes

Summary and background

- ISA (UK) 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. The revised ISA (UK) is effective for periods commencing on or after **15 December 2021**. Unlike ISA (UK) 315 which mirrors updates in the international ISA, the updated UK fraud standard is not based on international changes by the IAASB.
- The impact of the revisions to ISA (UK) 240 is less extensive compared to ISA (UK) 315, but nevertheless resulted in changes to our audit approach. The table to the right summarises the main changes and our final assessment of their impact.

What did this mean for our audit?

- The changes introduced new requirements which increased audit effort and therefore the audit fee. The additional work is largely the result of investing more time identifying and assessing the risk of fraud during risk assessment and involving specialists to aid with both risk identification and the auditor's response to risk.

Area	Effect on audit effort	Summary of changes and impact
Risk assessment procedures and related activities		<ol style="list-style-type: none"> 1. Increased focus on applying professional scepticism – the key areas affected are: <ul style="list-style-type: none"> – the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, – remaining alert for indications of inauthenticity in documents and records, and – investigating inconsistent or implausible responses to inquiries performed. 2. Our inquiries with individuals at the entity were expanded to include, amongst others, those who deal with allegations of fraud 3. We determined whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge		<p>We complied with enhanced requirements for internal discussions among the audit team to identify and assess the risk of fraud in the audit, including a requirement to determine the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.</p>
Communications with management / TCWG		<p>We have complied with new requirements for communicating matters related to fraud with management and those charged with governance, in addition to the reporting in our audit reports.</p>



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