



Inverclyde Council

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

4 December 2025

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Contents	Page
Introduction	3
Audit conclusions	5
Materiality	6
Our audit findings	7
Significant risks and other areas of focus	9
Key accounting estimates	15
Group Involvement	17
Other significant matters	18
Wider Scope and Best Value	19
Appendices	33

Introduction

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of InverclydeCouncil (the Council) under part VII of the Local Government (Scotland) Act 1973 (“theAct”). 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 AuditCommittee on 6 May 2025.

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 InverclydeCouncil’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 complete.

Audit Conclusions

Audit opinion

We have issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2025, and of the deficit for the year then ended.

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 2024-25 ("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.

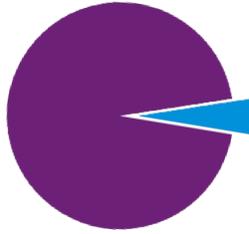
Other communications

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 (2023-24)
£433m

Total Council expenditure (2023-24)
£427m



Group materiality
£8.6m
2% of total expenditure

Council materiality
£8.5m
2% of expenditure



Group: £430k
Council: £425k

Group: £6.45m
Council: £6.37m

Group: £8.6m
Council: £8.5m

Misstatements reported to the Council

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 £6.45m (Council: £6.37m). We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Our audit findings

Significant audit risks	Risk Change since planning	Findings (Pages 9-14)
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.
Valuation of Land & Buildings*	No change	We have identified that there was not a Management Review Control (MRC) to address the significant audit risk.
Fraud risk from expenditure recognition (cut-off of expenditure)	No change	We did not identify any issues in relation to fraud risk from expenditure recognition.
Management override of controls	No change	We have not identified any instances of management override of controls.

Other Focus Area	Judgement	Findings
IFRS 16 Leases	No change	We did not identify any reportable issues in relation to initial application of IFRS 16.

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	Neutral	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have assessed the assumptions used to be neutral.

*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 19-32)

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.

Under the 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

Uncorrected Audit Misstatements

Page 47

Refer Appendix 3

Corrected Audit Misstatements

Page 47

Refer Appendix 3

Number of Control Recommendations

Page 36

Recommendation raised and followed up (Refer Appendix 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.

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.

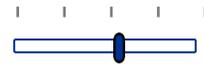
Assessing transparency:

- 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 complete. We have not identified any audit adjustments or new control deficiencies based on work performed. Our actuarial specialists have evaluated the assumptions applied in measuring the net pension liability and have found these to be balanced. 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 2024 was £382m, in addition to Schools PPP assets of £96m. 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 2024/25, 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 2025; 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 verified 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.

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.

Our work is complete. We identified one audit difference with respect to how the impact of revaluation was applied resulting in adjustment required to the amount of depreciation and revaluation , which has been adjusted in the financial statements (page 47).

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 May 2025, we outlined that we rebutted 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 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 2025, 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 2024/25 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

- 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 thereverse.

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		14.69	(1.72)		Overall, we consider the assumptions adopted to be balanced.

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
	<p>Cautious Neutral Opti mistic</p>			<p>Neutral</p>	
Liabilities					
LGPS Defined Benefit Obligation		(28)	(4)		KPMG actuaries reviewed the actuarial valuation for the Pension Fund, considered the disclosure implications and compared the actuarial valuation to our internal benchmarks. Overall we consider the assumptions adopted to be balanced.

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 (non-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 is a significant component. 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.

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.

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.

- 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 £322,570. 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 as wider-scope audit.

Commentary on arrangements

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

- Financial Management – Page20;
- Financial Sustainability – Page23;
- Vision, Leadership and Governance – Page 25; and
- Use of Resources to Improve Outcomes – Page28.

We have also reported on Statutory Performance Indicators on Page 30.

Lastly, in addition to our separate Thematic report on Best Value, we have also summarised our findings in relation to Best Value on Pages 31 and 32.

Wider Scopearrangements

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

In February, 2024 the Council agreed its 2024/25 budget with service expenditure amounting to £251.2 million. As per the reported revised budget the service expenditure amounted to £255.9 million with savings and contribution from general reserves amounting to £3.35 million and £5.6 million (including £3 million capital reserves transfer) respectively. All savings bar £0.074 million have been reported as achieved.

The Council's financial performance shows a deficit on the provision of services of £37.8 million as opposed to the budgeted deficit/surplus of nil. The annual accounts provide a reconciliation between the planned and actual deficit. The amount after removing the impact of adjustments not included in the revenue outturn amounts to surplus of £0.04 million.

The Council continues to make capital investment with £22.9 million being spent in 2024-25. Funding of capital expenditure included £0.57 million from capital receipts, £16.5 million of government grants with the balance of £5.93 million being met through internal funding and borrowing.

In March 2025 the Council agreed its 2025/26 budget. Savings of £3.4m were approved during the budget process together with an increase in Council Tax of 8.5% with a further £1.2m approved Use of Reserves to balance the 2025/26 Revenue Budget.

Budget Monitoring

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

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.

Wider Scopearrangements

Financial Management (continued)

Internal Audit (continued)

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.

A report, dated 26 June 2025, was presented to the Audit Committee. The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2024/25.

The report noted that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion was reported as "Satisfactory".

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.

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 procedures for preventing and detecting any breaches of these standards including any instances of corruption enacted through the anti fraud and corruption policy.

As part of a previous year audit we noted that the policy was last reviewed and updated in 2017 and recommended periodic review and update of this policy. The updated policy was presented to the Audit Committee dated 7 January 2025 and approved.

Wider Scopearrangements

Financial Management (continued)

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.

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 2025-26 budget was set in March 2025.
- Overall financial systems of internal control are operating effectively,
- The Council's latest accounts are prepared on a going concern basis.
- There are established procedures for preventing and detecting fraud.

Wider Scopearrangements

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 strategy (MTFS)

The council's latest financial strategy update covers the period 2025/26 to 2034/35. It is updated on a six-monthly basis. The plan with the latest update was presented to the Council and approved dated 12 June 2025.

The six monthly review of the Financial Strategy takes into account the latest forecasts, inflation and interest rate projections, and the decisions taken by the Council in relation to the Budget.

Revenue Forecasts

The Financial Strategy covers the period 2026-35 in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast.

In preparing the MediumTermFinancial 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

As per the update the 2025/28 estimated net funding gap is £19.92 million before application of the savings. The net funding gap after application of the savings amount to £16.35 million.

The update highlights that based on this latest information and the local assessment of certain figures by the Chief Financial Officer, the mid-range scenario shows that the Council faces a net potential funding gap of £23.6 million over the 2027/29 period. The update further illustrates scenarios for the 2027/29 funding gap using different assumptions. These tables show potential funding shortfalls of £13.9 million to £34.5 million

Wider Scopearrangements

Financial Sustainability (continued)

Capital Projections

The MTFP includes a 3 year Capital Programme covering 2026/28. The approved capital programme has a funding shortfall of £2.87 million.

Reserves Strategy

The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of £4 million. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in March 2023.

Savings Plans

The council plans to bridge funding gaps mostly through savings and the use of reserves. 2024/26 budget included approval of target savings. The targets are monitored as part of budget monitoring reports.

In the prior year we recommend that keeping in view the availability of medium term forecast, beyond the latest budget, saving plans should be considered and developed for medium term as well i.e. beyond the period covered by the latest budget. The Finance Services Update presented, dated 16 September 2025, to the Policy and Resources Committee included a section in relation to the Savings Strategy which highlighted options available to the Council to close the budget gap. The process should be further developed to include indicative figures in the medium term to close the projected budget gap identified in the MTFs.

Prior year Recommendation

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.
- Saving plans should be developed for medium term as well i.e. beyond the period covered by the latest budget.

Wider Scopearrangements

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 LocalGovernment 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. 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 Plan 2023/28 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 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 NeedsAssessment was updated which informed the development of the plan. We further noted the updated Strategic Needs Assessment in 2025. 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 form 2023 to 2026 and include the performance targets. Committee plans are refreshed annually and latest refresh was carried out in 2025. The refreshed committee plans are available on the Council website.

Wider Scopearrangements

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 2024/25.

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.

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 to the Audit Committee. The annual report on risk management activity for 2022/23 was presented to the Audit Committee dated 24 October 2023. The purpose of this report was to present to Committee progress made in developing and monitoring a strategic approach to managing risks faced by the Council. We did not see evidence of this reporting for 2023/24.

Recommendation one

The Council has an approved risk management strategy in place. The policy was approved by the Policy and Resource Committee dated 21 November 2023, following the review and recommendation by the Audit Committee.

Wider Scopearrangements

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 auditcommittee.

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 associateddocuments relating to strategies, policies andplans.

Conclusions

- Governance arrangements are appropriate and operated effectively.

Wider Scopearrangements

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 2024/25 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 2023/24 is available for public access on the Council's website. As part of the review of minutes we noted the 2023/24 report being presented to the Policy and Resource Committee in November 2024 for consideration.

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 councils reports the same in summary 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 41.4% and 40.5% 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 deteriorated from 56% to 55% on an overall basis.

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. The Council publishes performance information on the delivery of the Education and Communities, Corporate Services and Environment and Regeneration.

Performance is reported to:

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

The Council has a planning model, known as Committee Delivery and Improvement Plans, with a Committee Plan developed for each three Committees listed above.

Conclusion

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

Wider Scopearrangements

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 provides:

- a Snapshots of council performance. This is informed by the annual performance report (published in a different section of the website).
- an overview of Inverclyde Council's latest performance 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 overtime.

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 self evaluation and continuous improvement.

As part of a previous audit we noted 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, was not in place. We understand that this has been introduced. The performance management framework was updated to capture this requirement in 2024, and the latest report was presented to the Policy and Resources Committee dated 25 March 2025.

Conclusions

- The Council has made arrangements to comply with the SPI Directions.

Best Valuearrangements

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 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.

Thematic reviews

Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2024/25 relates to "Transformation: how councils are redesigning and delivering more efficient services to achieve planned outcomes". In carrying out the overview, auditors are required to answer the following questions:

- To what extent does the council have clear plans for transformation that link to its priorities and support long-term financial sustainability?
- To what extent do the council's programme management arrangements facilitate effective oversight of its transformation plans?
- To what extent are partners and communities involved in the development and delivery of the council's plans for transformation?
- To what extent has the council considered the impact of its transformation activity, including on vulnerable or protected groups?

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 2024/25 Annual Audit Report.

Best Valuearrangements

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's plans for transformation are embedded within its key plans and strategies and align with its corporate priorities.
- The Council Plans identifies specific projects and detail anticipated costs and benefits.
- The Council's transformation projects vary in scale, and it is clear how they will address its funding gaps/ contribute to the financial sustainability of the Council. However, the Council needs to consider projects to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.
- The Council does not have a dedicated programme management office. Effective committee and officer led governance arrangements are in place to facilitate the oversight of the transformational activity
- The Council has scrutiny arrangements in place for reporting progress to the senior leadership team and elected members.
- The Council faces challenges including sufficient staffing capacity to deliver its transformation ambitions.
- The Council has demonstrated that it is working with partners to deliver its transformation initiatives.
- There are examples of joint funding arrangements between the Council and partners for transformation projects.
- The Council has engaged with communities including the third sector and vulnerable groups to inform its transformation plans.
- There is evidence that timely equality impact assessments have informed the Council's transformation plans.
- The Council's transformation activity has had a positive impact on its services and has delivered positive outcomes for communities.

Following recommendations are included in the Best Value Thematic report:

- We recommend that keeping in view the availability of medium-term forecast, beyond the latest budget, quantified saving/income generation plans should be developed for medium term as well i.e. beyond the period covered by the latest budget and incorporated as part of the medium-term financial strategy.
- Currently identified savings do not completely bridge the gap identified as part of the medium-term financial strategy. The council needs to consider additional schemes to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.

Conclusion

The council has established overall effective arrangements to secure best value, with scope for further improvements.



Appendices

Mandatory communications

Type	Statement
Our draft management representation letter	 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 2025.
Adjusted audit differences	 See appendix Three.
Unadjusted audit differences	 See appendix Three.
Related parties	 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	 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	 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	 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	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 We expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2025.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 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	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	 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	 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. Below is a table of the actions and implementation. We have disclosed below the follow-up of prior year recommendations 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

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
1	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>Greenock Ocean Terminal is complete, the Inchgreen project has fulfilled the original project scope, additional spend is being considered. The Final Business Case for Inverkip has been approved by the Environment and Regeneration Committee and has been submitted to the City Deal Cabinet for consideration and approval</p> <p><u>SLIPPAGE</u></p>	<p>The Greenock Ocean Terminal and Inchgreen Marine Park projects are both complete. The third project, Inverkip, is ongoing with completion due in 4th quarter of 2025.</p> <p><u>SLIPPAGE</u></p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
2	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. Recommendation In Progress.</p> <p><u>ON TARGET</u></p>	<p>A report on the Local Development Plan is being presented to Environment & Regeneration Committee on 30 October 2025 advising a revised completed date of March 2027.</p> <p><u>SLIPPAGE</u></p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
3	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 March 2024 Policy & Resources Committee approved a revised Policy Hierarchy and Template plus a planned timetable for review.</p> <p>Update on progress is to be reported every second cycle. An update will go to the November 2024 Policy & Resources Committee.</p> <p><u>ON TARGET</u></p>	<p>March 2024 Policy & Resources Committee approved a revised policy hierarchy and review timetable.</p> <p>The timetable has been implemented with a significant number of policies being updated and agreed by the relevant Committee.</p> <p>Monitoring of progress is carried out by the CMT and is reported as part of Committee Plans from 2024/25 onwards.</p> <p><u>ON TARGET</u></p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
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>The current Council Plan runs until 2028 and there will be greater involvement of equality groups in the development of the new plan which will start in 2027. A mid term review of the Partnership Plan will take place in 2028 and will also involve equality group consultation.</p> <p><u>ON TARGET</u></p>	<p>The current Council Plan runs until 2028 and there will be greater involvement of equality groups in the development of the new plan which will start in 2027. A midterm review of the Partnership Plan will take place in 2028 and will also involve equality group consultation.</p> <p><u>ON TARGET</u></p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
5	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 strategies.</p>	<p>Following approval from the Environment & Regeneration Committee in May 2024, the Asset Management Strategy was approved by the Council's Policy & Resources Committee on 4th June 2024.</p> <p><u>COMPLETE</u></p> <p>It has been agreed that the ICT Strategy will be integrated with the Digital Strategy and the Customer Services Strategy to become a fully comprehensive Digital and Customer Service Strategy. This change has resulted in slight slippage to November 2024.</p> <p><u>SLIPPAGE</u></p>	<p>A review of the Digital and ICT strategies has been carried out. At its meeting on 19 November 2024, the Policy and Resources Committee approved the CMT recommendation to adopt a phased approach to a new Digital and Customer Services Strategy, recognising that more development needs to take place to transform and redesign Council services and that this requires to be appropriately planned for.</p> <p><u>SLIPPAGE</u></p>

Recommendations followed up

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
6	③	<p>Savings Plans</p> <p>We understand that while the Council has a medium to longer term financial strategy in place, however the savings plans are limited to period covered by the latest budget i.e. next two years.</p> <p>Recommendation</p> <p>We recommend that keeping in view the availability of medium term forecast, beyond the two year budget, saving plans should be considered and developed for medium term as well i.e. beyond the period covered by the latest budget.</p>	<p>Officers will develop a medium term savings strategy as part of the development of the 2026/27 Budget.</p> <p>Chief Financial Officer September 2025</p>	<p>Savings plans developed and approved by Policy Resources Committee in September 2025. Approach to closing the budget gap will be included in the December 2025 Finance Strategy.</p> <p>Savings plans will be further developed in future budget settings on approval by Members.</p> <p>Chief Financial Officer December 2026</p>

Recommendations followed up (Best Value)

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
7	③	<p>We understand that a system of overall assessment of the impacts of the digital modernisation initiatives should be developed.</p> <p>Risk: There is a risk in relation to inability to identify any negative consequences on the service quality and outcomes.</p> <p>We recommend that a system of overall assessment of the impacts (cost, time and quality) of the digital modernisation initiatives should be designed and implemented</p>	<p>Officers will examine the most appropriate format of a collated assessment of the impact of the Digital Modernisation investment including the quantification of any efficiencies, savings and associated service improvements.</p> <p>Thereafter this will be reported to the Policy & Resources Committee</p> <p>Chief Executive/Head of Legal, Democratic, Digital and Customer Services</p> <p>September 2025</p>	<p>In March 2025, the Board approved a name change to reflect the transformative nature of the projects being delivered and is now called the Digital Modernisation and Transformation Project Board. Evaluation reports are completed for each project funded by the Board.</p> <p>A Digital Maturity Assessment to help the Council to establish where we are on our digital transformation journey is being undertaken and is due for completion in November 2025.</p> <p><u>ON TARGET</u></p>

Recommendations followed up (Best Value)

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
8	③	<p>We understand that while consideration of impacts of hybrid working are in-built into the process for approved cases however an overall assessment of the impact of the flexible working arrangements on service quality and outcomes needs to be carried out. Risk: There is a risk in relation to inability to identify any negative consequences of the flexible working arrangements on the service quality and outcomes</p> <p>We recommend that an overall assessment of the impact of the new flexible arrangements on service quality and outcomes, to provide greater insight into the achievement of the intended objectives, should be carried out. We further recommend, while in use, the documentation of the Council's expectations in relation to informal flexible working arrangements</p>	<p>Officers will carry out the assessment as indicated and thereafter report to the Policy & Resources Committee.</p> <p>The Flexible Working Policy will be reviewed to ensure that it reflects current practice in relation to informal flexible working.</p> <p>Head of OD, Policy & Communications</p> <p>June 2025</p>	<p>An assessment of the impact of hybrid working, carried out by Inverclyde Council and the Improvement Service, has been completed with the results reported to the Policy and Resources Committee on 3 June 2025.</p> <p>The findings from the assessment have been included in the Council's revised Flexible Working Policy approved Policy and Resources Committee on 3 June 2025.</p> <p><u>COMPLETE</u></p>

Recommendations followed up (Best Value)

#	Risk	Issue, Impact and Recommendation	Update October 2024	Update October 2025
9	3	<p>The Council is gradually moving away from joint workforce arrangements with other councils and not implementing joint working on a significant scale. Risk: There is a risk in relation to inability to make the best use of the existing workforces and to efficiently plan for the particular workforce needs in the areas.</p> <p>We recommend that Council should continue to explore opportunities for joint working and collaboration to build resilience and to make the best use of resources.</p>	<p>The Council will consider potential joint working with other councils and other partners as part of the development of medium-term actions linked to Transformation and Delivering Differently. This to feed into the 2026/27 Budget process.</p> <p>Chief Executive</p> <p>September 2025</p>	<p>The Council continues to pursue joint working and collaborative arrangements where appropriate and currently works with a number of partners across all relevant sectors.</p> <p>With regard to formal shared services arrangements, there has been further exploration of a wider internal audit shared service, reports on this matter will be considered by Inverclyde Council and Policy and Resources Committee.</p>

Recommendations raised (Wider-Scope)

#	Risk	Issue, Impact and Recommendation	Management Response
1	3	<p>Risk Management Reporting</p> <p>Reporting on risk management is undertaken and reported to the Audit Committee. The 2022/23 report on risk management was presented to the Audit Committee dated 24 October 2023. We did not see evidence of this reporting for 2023/24.</p> <p>Recommendation</p> <p>We recommend regular reporting in line with the requisite frequency.</p>	<p>Risk management was not reported during 2023/24 due to long term absence of the Chief Internal Auditor.</p> <p>A report on the period 2024/25 was submitted to Audit Committee in September 2025 and will now follow the regular reporting schedule.</p> <p>Chief Internal Auditor</p> <p>COMPLETE</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.

Adjusted audit differences (£'000s) – Financial Statements (Council and Group)

Detail	CIES Dr/(Cr)	Balance Sheet Dr/(Cr)	Comments
Depreciation (Surplus) or deficit on the revaluation of non-current assets	19,445 (19,445)		- Being the correction of the impact of depreciation
Capital Adjustment Account Revaluation Reserve		19,445 (19,445)	- misclassified as revaluation impact
Group Long term pensions asset		10,012	- Being the correction of
Group pensions liability		(10,012)	- the classification of pension asset from a group entity
Group Actuarial Gain	(4,906)		- Being the correction of
Group Reserves		4,906	- actuarial gain treated as actuarial loss.
Cost of Services	1,800		- Being correction of the
Financing and Investment Expenditure	(1,800)		- misclassification of expenditure

We identified the following disclosure adjustments which have been updated in the financial statements:

- Updates to the Leases note in line with the requirements, of the applicable financial reporting framework, relating to first time adoption of IFRS 16 Leases.
- Updates in the nature of internal consistency emanating from adjustments above.

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	2024/25	2023/24
Auditor Remuneration **	£258,130	£247,720
Pooled Costs	£6,480	£9,030
PABV Contribution	£59,100	£62,010
Sectoral Cap Adjustment	(£1,150)	(£2,240)
TOTAL AUDIT FEES (Incl VAT)	£322,570	£316,520
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.

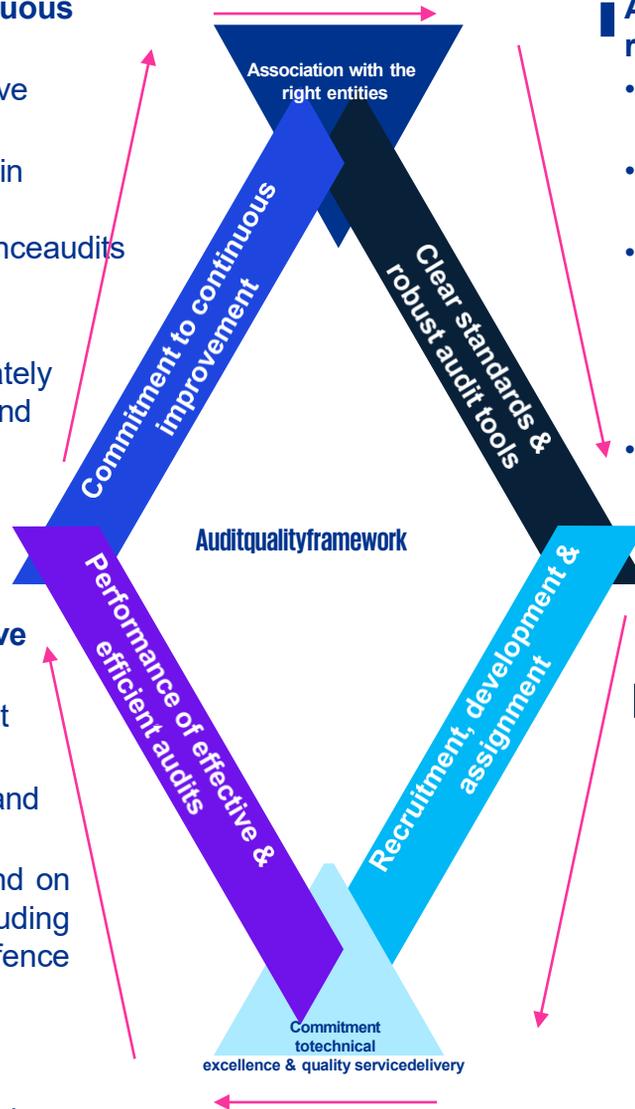
- To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.
- Responsibility for quality starts at the top through our governance structures as the UK 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

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



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

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

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

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



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