

# **Renfrewshire Council - 2018/19 Audit Report on Accounts Closure**

ACCOUNTS COMMISSION 

Prepared for the Accounts Commission  
March 2020

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Executive Summary

## Introduction and background

1. The Code of Audit Practice requires auditors to produce a report summarising the significant matters arising from their work at the conclusion of each year's audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.
2. I have received the 2018/19 annual audit report for Renfrewshire Council (the Council) from Audit Scotland, the appointed auditor. The most significant issue in their report relates to the late closure of the Council's 2018/19 Accounts and the auditors unqualified, but, modified audit opinion in relation to the adequacy of accounting records maintained by the Council. I have therefore decided to use the reporting powers available to me under s102 (1) of the Local Government (Scotland) Act 1973 to bring this issue and subsequent developments to the Commission's attention.
3. This report also provides an update on the position outlined in the Auditors' reports.

## Reporting the 2018/19 audit

4. It is normal practice within Audit Scotland for the Auditor to report the outcome of both their financial statements (annual accounts) audit and their wider dimensions work in the Annual Audit Report. At the same time, the Auditor would normally issue a brief letter to the Council outlining the Auditors' compliance with International Standard on Auditing (ISA260) "*Reporting to Those Charged with Governance*". However, due to the issues outlined further in this report the Auditor took the decision to separately report, under ISA260, the issues arising from their financial statements audit and to then summarise the outcome of the completed audit in their Annual Audit Report.
5. The Auditors' ISA260 Report was considered at the meeting of Renfrewshire Council on 26 September 2019 and is included at Appendix 1.
6. The Auditor's Annual Audit Report was considered by the Council's Audit, Risk and Scrutiny Board (ARSB) on 4 November 2019. The report has also been published on Audit Scotland's website and is included at Appendix 2.
7. I draw the Commission's attention to the following points in relation to the closure of the Council's 2018/19 accounts.

## Context

8. Renfrewshire Council has a strong track record of good financial management. Having reviewed the last five years audit reports, it is clear that the final accounts process has historically been straightforward, with auditors reporting that the draft accounts have consistently been submitted on time and to a good standard.
9. In addition, the annual audit report for the 2018/19 audit highlights several positive aspects from this year's audit work, for example:
  - The Council's strategic financial management is effective, with strong budgeting, financial monitoring and reporting processes
  - The Council's financial position is sustainable into the foreseeable future
  - Appropriate action is being taken through the Council's Transformation Programme to address the projected funding gap of £45m
  - The Council continues to make good progress addressing the recommendations contained in the 2016/17 Best Value Assurance Report.
10. It was therefore disappointing for all concerned that these issues arose at the end of the audit process for 2018/19.

## Key aspects of the 2018/19 audit

### System changes

11. Renfrewshire Council undertook significant changes to its core systems during October 2018 through the implementation of an Enterprise Resource Planning (ERP) system (Business World). The ERP system combines finance, human resources, payroll and procurement into a single integrated application. The Council appropriately identified the ERP system implementation risk within its corporate risk register prior to commencing the project. Having delivered a series of actions to mitigate against this risk, the system change was well managed.
12. In their Annual Audit Plan for 2018/19, considered by the Council's ARSB on 21 January 2019, the Auditor highlighted the increased risk of financial reporting errors inherently arising from the implementation of the new system. In particular, the Auditor noted risks in relation to the implementation of a new control environment.
13. The Auditor provided a summary of the key findings arising from their interim work in their Management Report presented to the Council's ARSB on 28 May 2019. In their report the Auditor noted that the implementation of Business World, including the "bedding-in" of the system, was still ongoing and elements of the system, for example procurement, had yet to be

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brought on line. Additionally, the Auditor noted that, as expected, the application and adjustment to a new system of this scale had put additional pressure on staff involved with the implementation process throughout the Council.

## Accounts closure

14. The unaudited accounts were approved by the Council in June 2019 and presented for audit on 27 June 2019 in line with the agreed timetable set out in the 2018/19 Annual Audit Plan. During the audit process the Auditor identified several issues that required adjustments to be made to the Financial Statements. Whilst it is entirely normal for adjustments to result from the audit process, the Auditor identified five material adjustments which were reported in Exhibit 2 of the ISA260 Report (page 5 and 6 in Appendix 1 of this report) and Exhibit 3 of the Annual Audit Report (page 12-14 in Appendix 2 of this report).
15. Of these five adjustments the most significant is in relation to trade receivables and trade payables. It is this issue alone, in a complex implementation plan for a suite of system changes, which resulted in the late closure of the Council's 2018/19 Accounts and the Auditors' modified audit opinion in relation to the adequacy of accounting records maintained by the Council.
16. The Auditor has reported that balances in the Council's financial ledger in respect of trade receivables and trade payables were not properly reflected within the Balance Sheet in the accounts presented for audit. These differences arose because council finance staff had identified issues with intra-group balances between the Council and Renfrewshire Leisure Limited (RLL), an Arm's Length External Organisation (ALEO) included in the Council's group accounts. Journals continued to be posted to the ledger after the accounts had been presented to the Auditor at the end of June 2019 to try and correct this issue.
17. However, this resulted in a difference between the accounts presented for audit, supporting working papers and the ledger and the journal postings did not appropriately correct the identified issues. Therefore, further correcting adjustments were required once the mismatch between the accounts, working papers and ledger came to light through the audit process.
18. The Council provided a revised set of Accounts for audit on 16 September 2019 and these accounts were presented, by Officers, for approval at the Council Meeting on 26 September 2019. The Auditor reported to the Council at the same meeting (through the ISA260 Report) that:
  - They would not be able to issue their audit opinion by the statutory deadline of 30 September 2019

- The Audit Opinion would be modified to include a report by exception highlighting that the Council had not maintained adequate accounting records in respect to the trade receivable and trade payable balances disclosed in the Balance Sheet; and
- There were five key elements of audit work still outstanding at that date, specifically:
  - Work to ensure all expected adjustments had been made to the version of the accounts presented for audit on 16 September;
  - Completion of substantive testing on this set of accounts;
  - Receipt and assessment of component auditor assurances for Renfrewshire Leisure Limited, following resolution of the issues highlighted in paragraphs 16 and 17 above;
  - Final Audit Director review of the completed work and revised financial statements; and
  - Peer review of the proposed modification to the audit opinion.

19. At the meeting on 26 September the Council resolved to "*approve the audited annual accounts for signature in accordance with the relevant regulations, subject to any further minor adjustments which may arise in concluding the audit process; in which case authority is delegated to the Director Finance and Resources, in consultation with the Convener of the Finance, Resources and Customer Services Policy Board to make any required minor adjustments to the audited annual accounts.*"
20. Following the Council meeting, a further set of accounts was presented for audit in line with the agreed delegation. The Auditor completed their work on this final set of accounts and issued an unqualified opinion on the 2018/19 accounts on 9 October 2019, seven working days after the statutory deadline of 30 September. This opinion was in line with the position outlined in paragraph 14 above.
21. There had been a process of continuous engagement between the Auditor and Council Officers throughout the key phases of the audit. Council Officers had updated and engaged with Elected Members on this matter through briefings to the Group Leaders and a meeting of the ARSB on the 23 September 2019.

## Subsequent events

### Trade receivables and trade payables

22. Senior officers at the Council have taken the issues arising from the audit of the 2018/19 accounts seriously and responded in a positive and constructive manner to the matters identified

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through the audit. Actions initiated by Officers during the audit process to redress the identified issues clearly, and appropriately, fell into two categories:

- Immediate actions required to successfully correct the issues in the 2018/19 accounts; and
- Permanent, corrective changes to the system to prevent the recurrence of the same issues in the accounts for 2019/20 and beyond. The Council has further reinforced these changes through enhancements to non-system process including:
  - o Focussed review of debtors and creditors;
  - o Improved reconciliation and monitoring procedures;
  - o Full balance sheet review at the end of October 2019 (period 7) and January 2020 (period 10);

23. The Auditor is content that these actions and the detailed work that underpins them are an appropriate and credible response to the specific issues giving rise to the late and modified Opinion on the 2018/19 accounts. It is the Auditor's view that, assuming no other major problems are identified, these actions should prevent a recurrence of those issues.

24. Nevertheless, the Auditor has made clear to Council Officers that the key measures of success will be Council's ability to produce a materially accurate, complete and timely statement of accounts for 2019/20, supported by good quality working papers and a clear audit trail. Success in this respect will be measured, ultimately, through the outcome of the audit process.

## Wider developments

25. The Council has taken the opportunity to look beyond the minimum actions required to address the trade receivable and trade payable issues and has agreed an ambitious closedown timetable for 2019/20 that seeks to advance the preparation of the annual accounts by more than a month compared to previous years. The Council is planning to present the 2019/20 Accounts for audit on Wednesday 20 May, some five weeks earlier than the previous year and to present the unaudited accounts for consideration by ARSB on 26 May. Officers are clear that 2019/20 is a pilot year for the proposed new timetable and recognise the risks inherent within the plan. Appropriate action has been taken to mitigate against such risks, notably:

- Consulting with other Councils who demonstrate a track record of successfully delivering early closure;

- Leaving the governance and approval timetable unchanged from previous years, so that the ARSB and Council meetings, to consider and approve the accounts respectively, remain in September 2020. Thereby providing some contingency within the accounts completion timetable;
  - Reinvigorating cross-departmental engagement and communication to secure acceptance and ownership of the proposed timetable under a single project manager;
  - Refreshing and enhancing the finance team by actively recruiting to previously vacant posts and a placing a renewed and greater emphasis on focussed CPD;
  - Continued close liaison and engagement with the Auditor and wider audit team.
26. The Auditor supports the Councils approach, to achieving an earlier closedown and has committed to working with the Council, within their remit as external auditor, to help the organisation realise this ambition. The aim of both the Council and Auditor is to achieve an earlier sign-off and opinion date for the 2020/21 statement of accounts.

## Conclusion

27. Renfrewshire Council has a strong track record of presenting high quality financial statements and supporting working papers for audit and a sound and robust approach to closing its accounts. The issues experienced as part of the 2018/19 audit were therefore unusual and uncharacteristic of the organisation. It is clear that both Officers and Elected Members at the Council took the issues very seriously and implementing appropriate and sustainable solutions is a key priority for the Director of Finance and Resources and the wider Finance Team.
28. The implementation of the ERP system was a significant and complex undertaking by the Council and the process of system change was well managed. The matter which resulted in the delayed and modified auditors' opinion arose from the operation of a specific aspect of the system.
29. I recognise that the Council acted to identify and address the underlying issues with trade receivables and trade payables in the 2018/19 Financial Statements and that these solutions ultimately enabled the Auditor to issue an unqualified opinion on the financial statements. The identification of these solutions and the reworking of the financial statements to ensure their correct implementation added further time pressures into an already tight timetable, which, in itself, presented a risk of further errors and misstatements occurring. The additional time required to audit the revisions to the accounts further contributed to these pressures.
30. Therefore, I fully support the Auditor's decision to delay issuing their opinion on the financial statements in order to reduce the level of pressure in the process and allow sufficient and

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appropriate time for finance officers to work through the adjustments and for the audit team to complete their work to an appropriate standard.

31. I agree with the Auditor's assessment as to the adequacy of the Council's response to prevent a recurrence of the same issues in 2019/20. However, I acknowledge that work remains to be completed by both the Council and the Auditor in preparing and auditing the 2019/20 financial statements. The key test will be the timely delivery of a high-quality set of accounts, supported by an equally high standard of working papers for audit, and a successful audit outcome.
32. I welcome the Council's wider review of its closedown process and support the Council's ambition to achieve an early accounts closure and sign-off. I recognise the risks associated with this, as does the Council, and the Auditor will report to me again on the outcome of the 2019/20 audit.

# **Appendix 1 - Renfrewshire Council 2018/19 Report to those charged with Governance**

# Renfrewshire Council

2018/19 Report to those charged with governance



 **AUDIT SCOTLAND**

Prepared for the Members of Renfrewshire Council and the Controller of Audit  
26 September 2019



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# Audit of 2018/19 annual accounts

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

## Independent auditor's report

**1.** Our audit work on the 2018/19 annual accounts is at an advanced stage. Subject to the satisfactory conclusion of the outstanding matters referred to below (see paragraph 10) and receipt of a revised set of annual accounts for final review, we anticipate being able to issue an unqualified but modified audit opinion in the independent auditor's report (see significant issue 1). For the reasons outlined in more detail at paragraphs 2 to 7 below, we will not be in a position to issue our audit opinions by the statutory deadline of 30 September 2019.

## Submission of the Council and its group annual accounts for audit

**2.** The unaudited annual accounts were approved by the Council in June 2019 and then passed to Audit Scotland on 27 June 2019 in line with the agreed audit timetable set out in our 2018/19 Annual Audit Plan. During the audit process we have identified a number of issues that required adjustments to be made to the financial statements. We have been working with finance officers within the Council to ensure any corrections or presentational changes agreed over the course of the audit process are reflected within revised working papers, and also within the Annual Accounts document itself.

**3.** Under the Council scheme of delegation, the Council has responsibility for approving the audited annual accounts, taking into account any recommendation from the Audit, Risk and Scrutiny Board in terms of this approval. For the 2018/19 audit, securing this recommendation has not been possible as outlined in the paper submitted by the Director of Finance and Resources.

**4.** It has been recommended in the paper by the Director of Finance and Resources that the Council agree to delegate authority to the Director of Finance & Resources, in consultation with the Convener of the Finance, Resources and Customer Services Policy Board, to agree any further immaterial adjustments to the annual accounts to satisfy audit requirements.

## Annual audit report

**5.** Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance in sufficient time to enable appropriate action. Our significant findings relating to audit work completed to date are included in Exhibit 1.

**6.** The Renfrewshire Council audited Annual Accounts for 2018/19 were scheduled to be considered by the Audit, Risk and Scrutiny Board on 23 September 2019, together with our Annual Audit Report which sets out the issues identified in respect of the annual accounts and the conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice. Due to the delays referred to above the report is not yet finalised.

**7.** Our Annual Audit Report (as opposed to the Report to those charged with governance) will be available for full consideration at the next Audit, Risk and Scrutiny Board meeting in November 2019. The Annual Audit Report will provide further detail in respect of the issues encountered in finalising the audited annual accounts.

## **Fraud, subsequent events and compliance with laws and regulations**

**8.** In presenting this report to the Council we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

## **Representations from Section 95 Officer**

**9.** As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made. This letter of representation should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

## **Outstanding audit work**

**10.** The key elements of audit work outstanding as at 24 September 2019 are:

- Audit review to ensure all expected adjustments have been included throughout the revised financial statements provided by the Council on 16 September;
- Completion of substantive audit testing in respect of the revised financial statements provided by the Council on 16 September 2019;
- Receipt and assessment of component auditor assurances for Renfrewshire Leisure Limited;
- Final review by Audit Director of the completed work and revised financial statements; and
- Peer review of the proposed modification to the audit opinion.

## **Audit opinions on section 106 charities**

**11.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Renfrewshire Council are sole trustees, irrespective of the size of the charity.

**12.** The Council has made progress in reducing the number of charitable trusts where it is the sole trustee. Renfrew Burgh, Paisley Burgh and Renfrewshire Council Citizens Funds were fully wound up as at 28 March 2018 as agreed by the Office of the Scottish Charity Regulator (OSCR). There is one remaining trust fund, Coats' Observatory Trust.

**13.** The Common Good Funds continue to make grants available to local organisations through grant making process and will continue to fund recurring commitments. The Council will also continue to review the funding provided by the Common Good Funds to ensure it remains appropriate and in line with the objectives of the Funds and to the benefit of the inhabitants of the relevant Burghs.

**14.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**15.** These were considered by the Audit, Risk and Scrutiny Board on 23 September and are included as a separate paper for Council approval.

## Whole of Government Accounts

**16.** The deadline to submit the Whole of Government Accounts (WGA) consolidation pack for the 2018/19 unaudited accounts was 27 July 2019. The Council submitted the return to external audit on 8 September 2019. The audit of the WGA consolidation pack is ongoing.

## Materiality

**17.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**18.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Ex h ib it 1](#). With regards

to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**19.** On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate. We subsequently revisited our planning materiality following receipt of the revised accounts on 16 September 2019. We concluded that our planned levels of materiality remain appropriate despite the adjustments made to the accounts outlined in Exhibit 2 below.

## Exhibit 1 Materiality values

| Materiality level       | Amount         |
|-------------------------|----------------|
| Overall materiality     | £7.539 million |
| Performance materiality | £3.770 million |
| Reporting threshold     | £0.188 million |

Source: Audit Scotland, Annual Audit Plan 2018/19

## Significant findings from the audit in accordance with ISA 260

**20.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

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

## Subjective aspects of the audit

**22.** We have no significant findings to report around the subjective aspects (e.g. accounting policies, accounting estimates/judgements, significant financial statements disclosures, impact of uncertainties etc) of the 2018/19 accounting practices.

## Exhibit 2

### Significant findings from the audit of the financial statements

| Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Resolution                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <p><b>1. Trade receivables and trade payables</b></p> <p>We noted that balances within the financial ledger in respect of trade receivables and trade payables were not properly reflected within the accounts presented for audit. Journals continued to be posted to the ledger, after the accounts had been provided to us at the end of June 2019. This resulted in a difference between the accounts presented for audit and the ledger. This also resulted in the working papers to support the accounts not reflecting the financial ledger position.</p> <p>Officers provided a revised set of accounts and updated working papers on 16 September to reflect the adjustments that had been processed through the ledger and to reflect additional adjustments requested as part of the audit.</p> | <p>Audit work is ongoing to complete the review of the required adjustments to the annual accounts.</p> |
| <p><b>2. Restructure of trading operations</b></p> <p>The Council has changed the disclosure / accounting treatment for trading operations in 2018/19. In prior years trading operations were presented in a separate note to the accounts and the net surplus/deficit for the year was reflected within the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For 2018/19 the note is no longer disclosed. The Council correctly reflected the gross figures within the CIES. However as this was a material change in accounting treatment the 2017/18 comparative figures should have been restated to reflect this change. Additional disclosure notes to explain the change in accounting treatment should be provided</p>                                                                | <p>The financial statements have been updated to reflect the recommended change.</p>                    |
| <p><b>3. Removal of Internal recharges</b></p> <p>To comply with a change in the 2018/19 guidance internal transactions cannot be included in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Our audit highlighted that the presentation within the CIES was inconsistent with the LASAAC advisory note. The removal of internal recharges should be applied directly to relevant service. The unaudited accounts disclosed this as an adjusting item as a single line after the cost of services within the CIES.</p>                                                                                                                                                                                                                                                                  | <p>The financial statements have been updated to reflect the recommended change.</p>                    |

| Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Resolution                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Additional disclosure notes to explain the change in accounting treatment should be provided                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                      |
| <p><b>4. Comprehensive income and Expenditure Statement (CIES)</b></p> <p>The format of the CIES within the unaudited accounts had been updated in the 2018/19 accounts with the incorrect removal of the gross expenditure and income figures from the 2017/18 comparative column.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>The financial statements have been updated to reflect the recommended change.</p> |
| <p><b>5. Non Domestic Rates (NDR)</b></p> <p>We noted that the council recognised debtor and creditor balances in relation to the collection of NDR in its unaudited accounts.</p> <p>The council acts as an agent of the Scottish Government in NDR transactions. While it is necessary for the council to maintain records relating to the collection of NDR, only amounts due to or from the NDR rate pool should be recognised in the annual accounts.</p> <p>To apply the correct accounting treatment an adjustment has been required to decrease debtors by £5.194 million with a corresponding increase in creditors.</p> <p>The 2017/18 figures have also been restated to show a decrease in debtors of £2.083 million with a corresponding increase in creditors.</p> | <p>The financial statements have been updated to reflect the recommended change.</p> |

Source: Audit Scotland

## How we evaluate misstatements

**23.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. In discussions with officers we anticipate that all misstatements will be corrected within the revised set of accounts.

## Amendments to the accounts arising from legal and other judgements made after the accounts had been submitted for audit

**24.** Legal cases were brought against the government regarding the transition arrangements made in each of the pensions schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes. The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019. As this would have an impact on the transition arrangements of all government backed pension schemes, the council instructed the actuary to the Strathclyde Pension Fund to quantify the impact on the council's pension fund liability.

**25.** The actuary estimated that the impact from this case is to increase the councils'

pension fund liability by £14.459 million. This also results in a £14.459 million

increase in the pension cost charge incorporated within the Comprehensive Income and Expenditure Statement in the accounts. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the general fund reserve balance in the unaudited accounts.

## Other findings

**26.** Our audit identified several presentational and disclosure issues which were discussed with management. This included the need to disclose more information regarding the restatement of prior year group accounts figures. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes have any impact on the council's outturn for the year.

## Objections

**27.** The Local Authority Accounts (Scotland) Regulations 2014 required the Council to give public notice for inspection and objection of the 2018/19 unaudited annual report and accounts by 17 June 2019. The public notice was published on the Council website on 26 June 2019 and in a newspaper on 28 June 2019, meaning the Council did not comply with the regulations.

# Renfrewshire Council

## 2018/19 Report to those charged with governance

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

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

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# **Appendix 2 - Renfrewshire Council 2018/19 Annual Audit Report**

# Renfrewshire Council

## 2018/19 Annual Audit Report



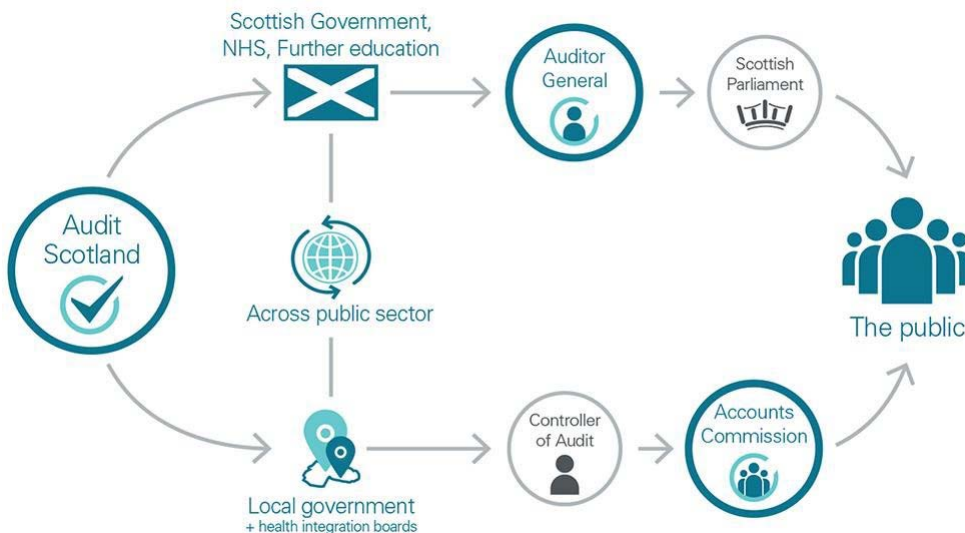
 **AUDIT SCOTLAND**

Prepared for the Members of Renfrewshire Council and the Controller of Audit  
28 October 2019

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2018/19 annual accounts

- 1** The financial statements for Renfrewshire Council and its group present a true and fair view of its financial position as at 31 March 2019. We issued an unqualified opinion on the 2018/19 accounts on 9 October 2019, however, the opinion was modified to reflect that the Council had not maintained adequate accounting records in respect of the year end debtor and creditor balances. The balances within the ledger for these items of account were not properly reflected in the accounts presented for audit as journals continued to be posted through the ledger after the unaudited accounts had finalised. The Council is currently reviewing its procedures for preparing the annual accounts and closing the ledger at the end of the financial year to avoid a repetition of this going forward. The opportunity exists for the Council to revisit the findings contained in our Management Report, presented to the Audit, Risk and Scrutiny Committee on 28 May 2019 to inform this review.
- 2** Additionally, changes to the CIPFA Accounting Code of Practice (the Code) for 2018/19 required internal recharges to be removed from the service. The accounts originally presented for audit at the end of June 2019 did not fully comply with this requirement and there is scope for further improvement in the Council's processes to accurately and efficiently identify internal recharge transactions.
- 3** More broadly the wider components of the Annual Accounts, including the Management Commentary, Annual Governance Statement and the audited elements of the Remuneration Report have been prepared in accordance with relevant regulations and guidance and are consistent with the Financial Statements and our knowledge of the Council.
- 4** Additionally, the financial statements for the Section 106 Charities administered by the Council are free from material misstatement.

## Financial management

- 5** The Council's strategic financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.
- 6** There are a number of areas where the Council could usefully enhance the transparency of the budget reports, including for example, producing an amended budget to reflect decisions made by Elected Members at the budget approval meeting. More detail on this, and other suggested improvements, are contained in Part 2 of this report.

## Financial sustainability

- 7** The Council and its wider group financial position is sustainable into the foreseeable future, although rising demand and increased acuity of demand coupled with increasing costs and reductions in central funding will continue to place a strain on the Council's capacity to deliver services at current levels.
- 8** Medium financial plans are aligned to the Council's corporate priorities and clearly demonstrate how the organisation intends to address future financial challenges. The Council undertakes robust financial modelling

based around the three scenarios of “best case”, “worst case” and “most likely” outcome. It has forecast that the funding gap for the three-year period from 2020 to 2023 is in the range of £26 million to £67 million. Prudently the Council is focussing on the “most likely” outcome as the basis for its medium term financial projects which still results in an estimated budget gap of some £45 million.

- 9 Appropriate action is being taken through the Council’s Transformation Programme to address the projected funding gap of £45 million and financial projections are regularly reviewed to ensure that they remain as reliable as possible. The transformation programme has a broad scope and includes ambitious solutions to the financial challenge including assessing alternative means of service delivery and possible service reductions.
- 10 The scale of the financial challenge is such that the Council will not be able to successfully deliver the required savings in isolation and it will need to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings. Success in this area will inevitably require difficult decisions on the part of Elected Members.

## Governance and transparency

- 11 The Council has appropriate governance arrangements in place that support the scrutiny of decisions, and, it is open and transparent in the way it conducts business. For example, members of the public can attend meetings of the Council and its standing boards.
- 12 Constructive and effective challenge is essential to good governance and meaningful scrutiny. Historically, we have reported that Elected Members do not take full advantage of the training and development opportunities available to them. Whilst we recognise that there have been improvements in this area, further action is required by Elected Members to review their individual training requirements with a view to agreeing tailored personal development plans to ensure they deliver, and are seen to deliver, the challenge and scrutiny that is expected of them.

## Value for money

- 13 The Council continues to make good progress addressing the recommendations contained in our 2016/17 Best Value Assurance Report. Key to this has been the development and implementation of a performance management framework. The framework is now well embedded across the organisation and Managers and Councillors clearly understand the framework and how it works, which, provides a sound base for further improvement across the Council.
- 14 Overall, Renfrewshire sits in the middle ground for performance when compared to the rest of its family group within the Local Government Benchmarking Framework. Performance is in the top quartile for nearly one-third of the 70 indicators and over the last 12 months the Council has demonstrated improved performance in 41 indicators. At the same time performance has remained stable in a further 10 indicators but declined against the remaining 19 indicators.
- 15 The Council actively considers performance against its corporate priorities and objectives and has established a range of improvement activities working in parallel which are clearly linked to key objectives and the budget setting process.
- 16 A locality plan for Renfrewshire was published in 2017 and focussed on a community of interest; the outcomes being experienced by people living in the 5% most deprived communities. The locality plan identifies broad improvement outcomes it does not make clear the localities where the actions will be focussed, and nor does it set out key milestones or timescales against which progress can be measured.

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# Introduction

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**1.** This report summarises the findings arising from the 2018/19 audit of Renfrewshire Council and its group (the Council).

**2.** The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 21 January 2019 meeting of the Audit, Risk and Scrutiny Board. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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**3.** The main elements of our audit work in 2018/19 have been:

- an audit of the Council and its group 2018/19 annual report and accounts and the statement of accounts of the section 106 charities administered by the Council including the issue of independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- audit work covering the Council's arrangements for securing Best Value relating to a follow up of the recommendations in the 2016/17 Best Value Assurance Report (BVAR)
- consideration of the four audit dimensions.

## Added value through the audit

4. We add value to Renfrewshire Council through the audit by:

- working closely with finance officers in a positive and constructive manner during the financial audit to discuss and resolve the challenges as they were identified
- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

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

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the Council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** Our annual audit report contains an agreed action plan at [Ap pen dix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services for the 2018/19 financial year.

**14.** Aspects of accounting records relating to the operation and closure of the Council's financial ledger, specifically for Debtor and Creditor balances, were poorly managed at the end of the financial year which resulted in additional audit work. As a result, an additional audit fee of £12,000 was levied.

**15.** The audit fee of £351,500 as set out in our Annual Audit Plan, has therefore increased to £363,500. We are not aware of any relationships that could compromise our objectivity and independence.

**16.** This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**17.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

The financial statements for Renfrewshire Council and its group present a true and fair view of its financial position as at 31 March 2019. We issued an unqualified opinion on the 2018/19 accounts on 9 October 2019, however, the opinion was modified to reflect that the Council had not maintained adequate accounting records in respect of the year end debtor and creditor balances. The balances within the ledger for these items of account were not properly reflected in the accounts presented for audit as journals continued to be posted through the ledger after the unaudited accounts had finalised.

Changes to the CIPFA Accounting Code of Practice (the Code) for 2018/19 required internal recharges to be removed from the service. The accounts originally presented for audit at the end of June 2019 did not fully comply with this requirement and there is scope for further improvement in the Council's processes to accurately and efficiently identify internal recharge transactions.

The wider components of the Annual Accounts, including the Management Commentary, Annual Governance Statement and the audited elements of the Remuneration Report have been prepared in accordance with relevant regulations and guidance and are consistent with the Financial Statements and our knowledge of the Council.

The financial statements for the Section 106 Charities administered by the Council are free from material misstatement.

The financial statements are the principal means by which the Council accounts for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual accounts and audit opinions

**18.** The financial statements for Renfrewshire Council and its group present a true and fair view of its financial position as at 31 March 2019. We issued an unqualified opinion on the 2018/19 accounts on 9 October 2019, however, the opinion was modified to reflect that the Council had not maintained adequate accounting records in respect of the year end debtor and creditor balances.

**19.** The unaudited annual accounts were approved by the Council in June 2019 and then passed to Audit Scotland on 27 June 2019 in line with the agreed audit timetable set out in our 2018/19 Annual Audit Plan. During the audit process we identified a number of issues that required adjustments to be made to the financial statements. We worked with finance officers within the Council to ensure any corrections or presentational changes agreed over the course of the audit process were reflected within the revised working papers, and also within the Annual Accounts document itself.

**20.** Under the Council scheme of delegation, the Council has responsibility for approving the audited annual accounts, taking into account any recommendation from the Audit, Risk and Scrutiny Board in terms of this approval. For the 2018/19 audit, securing this recommendation was not possible.

**21.** The annual accounts for the Council and its group for the year ended 31 March 2019 were presented to the full Council meeting on 26 September 2019. At the meeting the Council was asked to:

- approve the audited annual accounts for signature in accordance with the relevant regulations, subject to any further minor adjustments which may arise in concluding the audit process; in which case to further agree that authority is delegated to the Director of Finance & Resources, in consultation with the Convener of the Finance, Resources and Customer Services Policy Board to make any required minor adjustments to the audited annual accounts.

**22.** Further to the Council meeting on 26 September 2019 a revised set of accounts was presented to audit in line with the agreed delegation. The above delays resulted in the opinion on the financial statements being issued after the 30 September 2019 statutory deadline.

**23.** The Council is currently reviewing its procedures for preparing the annual accounts and closing the ledger at the end of the financial year to avoid a repetition of this going forward.

**24.** As detailed in exhibit 3 the balances within the ledger for trade receivables were adjusted after the accounts were presented for audit. These adjustments, while reflecting appropriate corrections should have been posted in a timelier manner and as part of the agreed audit adjustment process. Working papers included a large number of complex balances resulting from the change in accounting system.

**25.** The opportunity exists for the Council to revisit the findings contained in our Management Report, presented to the Audit, Risk and Scrutiny Committee on 28 May 2019 to inform this review.



### Recommendation 1

**We recommend that the Council's review of the audit findings highlighted within our management report inform the future close-down procedures for the preparation of the year end accounts.**

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**26.** In exhibit 3 we note that a change in the 2018/19 Code of Practice on Local Authority Accounting required the Council to remove internal recharges from each service within the CIES. We confirmed that management had processed this change and concluded that the figures are materially accurate.. However, we noted that there is scope for improvement in the Council's process to accurately and efficiently identify recharge transactions.



### Recommendation 2

**The 2018/19 Code requires that internal recharges are removed from each service within the CIES. There is scope for improvement in the Councils process to accurately and efficiently identify internal recharge transactions.**

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## Audit opinions on section 106 charities

**27.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Renfrewshire Council are sole trustees, irrespective of the size of the charity.

**28.** The Council has made progress in reducing the number of charitable trusts where it is the sole trustee.

**29.** Renfrew Burgh, Paisley Burgh and Renfrewshire Council Citizens Funds were fully wound up as at 28 March 2018 as agreed by the Office of the Scottish Charity Regulator (OSCR). There is one remaining trust fund, Coats' Observatory Trust.

**30.** The Common Good Funds continue to make grants available to local organisations through grant making process and will continue to fund recurring commitments. The Council will also continue to review the funding provided by the Common Good Funds to ensure it remains appropriate and in line with the objectives of the Funds and to the benefit of the inhabitants of the relevant Burghs.

**31.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**32.** These were considered by the Audit, Risk and Scrutiny Board on 23 September, approved by the Council on 26 September and signed by the statutory deadline of 30 September.

## Whole of Government Accounts

**33.** The deadline to submit the Whole of Government Accounts (WGA) consolidation pack for the 2018/19 unaudited accounts was 27 July 2019. The Council submitted the return to external audit on 8 September 2019. The audit of the WGA consolidation pack is ongoing.



### Recommendation 3

**The Council's WGA submission was late in both 2016/17 and 2017/18, resulting in a qualified audit opinion on the 2017/18 WGA return. Management should put in place processes to ensure future WGA submissions are prepared in accordance with the required NAO timetable.**

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## Risk of material misstatement

**34.** Appendix 2 provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**35.** We have reported at [ap pe n dix 2](#) and [ex hi bit 3](#) issues related to our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**36.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**37.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Ex h ib it 2](#). With regards

to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**38.** On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

| Materiality level       | Amount         |
|-------------------------|----------------|
| Overall materiality     | £7.539 million |
| Performance materiality | £3.770 million |
| Reporting threshold     | £0.188 million |

Source: Audit Scotland, Annual Audit Plan 2018/19

## Significant findings from the audit in accordance with ISA 260

**39.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**40.** The significant findings are summarised in [Ex hib it 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Ap pen dix 1](#) has been included.

### Qualitative aspects of the audit

**41.** We identified five significant findings in relation to the qualitative aspects of accounting practices and these are highlighted in [Ex h i bit 3](#) and where appropriate at [App end ix 1](#).

### Subjective aspects of the audit

**42.** We have no significant findings to report around the subjective aspects (e.g. accounting policies, accounting estimates/judgements, significant financial statements disclosures, impact of uncertainties etc) of the 2018/19 accounting practices.

## Exhibit 3

### Significant findings from the audit of the financial statements

| Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Resolution                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| <p><b>1. Trade receivables and trade payables</b></p> <p>We noted that balances within the financial ledger in respect of trade receivables and trade payables were not properly reflected within the accounts presented for audit. Journals continued to be posted to the ledger, after the accounts had been provided to us at the end of June 2019. This resulted in a difference between the accounts presented for audit and the</p> <p>ledger. This also resulted in the working papers to</p> | <p>The financial statements have been updated to reflect the recommended change.</p> |

| Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Resolution                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| <p>support the accounts not reflecting the financial ledger position.</p> <p>Officers provided a revised set of accounts and updated working papers on 16 September to reflect the adjustments that had been processed through the ledger and to reflect additional adjustments requested as part of the audit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                      |
| <p><b>2. Restructure of trading operations</b></p> <p>The Council has changed the disclosure / accounting treatment for trading operations in 2018/19. In prior years trading operations were presented in a separate note to the accounts and the net surplus/deficit for the year was reflected within the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For 2018/19 the note is no longer disclosed. The Council correctly reflected the gross figures within the CIES. However as this was a material change in accounting treatment the 2017/18 comparative figures should have been restated to reflect this change. Additional disclosure notes to explain the change in accounting treatment should be provided</p> | <p>The financial statements have been updated to reflect the recommended change.</p> |
| <p><b>3. Removal of Internal recharges</b></p> <p>To comply with a change in the 2018/19 guidance internal transactions cannot be included in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Our audit highlighted that the presentation within the CIES was inconsistent with the LASAAC advisory note. The removal of internal recharges should be applied directly to relevant service. The unaudited accounts disclosed this an adjusting item as a single line after the cost of services within the CIES.</p>                                                                                                                                                                                                      | <p>The financial statements have been updated to reflect the recommended change.</p> |
| <p><b>4. Comprehensive income and Expenditure Statement (CIES)</b></p> <p>The format of the CIES within the unaudited accounts had been updated in the 2018/19 accounts with the incorrect removal of the gross expenditure and income figures from the 2017/18 comparative column.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>The financial statements have been updated to reflect the recommended change.</p> |
| <p><b>5. Non Domestic Rates (NDR)</b></p> <p>We noted that the council recognised debtor and creditor balances in relation to the collection of NDR in its unaudited accounts.</p> <p>The council acts as an agent of the Scottish Government in NDR transactions. While it is necessary for the council to maintain records relating to the collection of NDR, only amounts due to or from the NDR rate pool should be recognised in the annual accounts.</p> <p>To apply the correct accounting treatment an</p>                                                                                                                                                                                                                          | <p>The financial statements have been updated to reflect the recommended change.</p> |

adjustment has been required to decrease debtors

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| Issue                                                                                                                                   | Resolution |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------|
| by £5.194 million with a corresponding increase in creditors.                                                                           |            |
| The 2017/18 figures have also been restated to show a decrease in debtors of £2.083 million with a corresponding increase in creditors. |            |
| The adjustment does not impact on the reported outturn position.                                                                        |            |

Source: Audit Scotland

## How we evaluate misstatements

**43.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

## Amendments to the accounts arising from legal and other judgements made after the accounts had been submitted for audit

**44.** Legal cases were brought against the government regarding the transition arrangements made in each of the pensions schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes.

**45.** The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019. As this would have an impact on the transition arrangements of all government backed pension schemes, the council instructed the actuary to the Strathclyde Pension Fund to quantify the impact on the council's pension fund liability.

**46.** The actuary estimated that the impact from this case is to increase the councils' pension fund liability by £14.459 million. This also results in a £14.459 million increase in the pension cost charge incorporated within the Comprehensive Income and Expenditure Statement in the accounts. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the general fund reserve balance in the unaudited accounts.

## Integration Joint Board

**47.** The Council appropriately included its share of the financial transactions of Renfrewshire Integration Joint Board (RIJB) within its group financial statements. Our audit testing confirmed that the Council properly identifies transactions that relate to work commissioned by RIJB. Further information regarding the services transferred to RIJB is included in [Part 4 section on Integration of H&S C.](#)

**48.** RIJB reported a net surplus of £2.031 million against total funding received of £254.007 million on both health and social care services in 2018/19. RIJB's result for 2018/19 included planned use of additional recurring funding of £2.511 million and reserves of £0.824 million from Renfrewshire Council in addition to the agreed delegated budget allocation. As at 31 March 2019, Renfrewshire Council held earmarked reserves (£1.232 million) and other balances (£1.203 million) relating to services delegated to RIJB.

**49.** We noted in our RIJB annual audit report that, although these arrangements have been properly accounted for, RIJB should discuss the existing additional funding arrangements with partners and consider how any future arrangements will be processed to improve transparency. Similarly, as Renfrewshire Council is the other party involved, we recommend that management should review balances it holds on behalf of RIJB and consider how any future funding arrangements will be processed.



#### Recommendation 4

**Renfrewshire Council holds earmarked reserves of £1.232 million and other balances of £1.203 million relating to services that have been delegated to RIJB. We recommend that the Council review the existing funding arrangements with RIJB and consider how any future arrangements will be processed to improve transparency.**

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### Other findings

**50.** Our audit identified several presentational and disclosure issues which were discussed with management. This included the need to disclose more information regarding the restatement of prior year group accounts figures. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes have any impact on the council's outturn for the year.

### Objections

**51.** The Local Authority Accounts (Scotland) Regulations 2014 required the Council to give public notice for inspection and objection of the 2018/19 unaudited annual report and accounts by 17 June 2019. The public notice was published on the Council website on 26 June 2019 and in a newspaper on 28 June 2019, meaning the Council did not comply with the regulations.



#### Recommendation 5

**The Council should review its procedures to ensure the statutory deadline to give public notice for inspection and objection is achieved in future years.**

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### Follow up of prior year recommendations

**52.** We have followed up the action previously reported and assessed progress made. One agreed action was raised in 2017/18 and has been fully actioned.

# Part 2

## Financial management



### Main judgements

The Council's strategic financial management is effective with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.

There are a number of areas where the Council could usefully enhance the transparency of the budgetary process, including for example, producing an amended budget to reflect decisions made by Elected Members at the budget approval meeting.

Good financial management is based on financial capacity, sound budgetary processes and an effective control environment.

### Budgetary process

**53.** The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on. While Renfrewshire Council has comparatively high levels of usable reserves, it is still important that an accurate and transparent budgetary process is in place.

**54.** The annual revenue and capital budgets are considered and approved by the council before the start of each financial year. Detailed budget proposals are prepared in advance and included in council meeting papers for councillors to consider.

**55.** We noted that the Council's budget is aligned to the Council priorities as set out in its Council Plan, which is consistent with good practice.

**56.** During the 2018/19 financial year, each Policy Board scrutinised revenue and capital monitoring reports for services relevant to that Policy Board, and in addition the Finance, Resources and Customer Services Policy Board received Council-wide revenue and capital monitoring overview reports.

**57.** A year end budget report is also produced but this is not in the same format as the regular budget reports considered by the respective Boards throughout the financial year.

**58.** Overall, the Council's budget setting and monitoring arrangements are adequate. We noted in our [May 2019 management report](#) that the Council could improve the transparency of its budget reporting by:

- publishing an amended budget to reflect decisions made by members during budget approval
- outlining budget changes from the prior period in each finance report.





## Recommendation 6

**We recommend the Council reviews the budgetary process by:**

**producing the year end budget report in the same format as the regular budget reports considered by the respective Boards throughout the financial year**

**publishing an amended budget to reflect decisions made by members during budget approval**

**outlining budget changes from the prior period in each finance report.**

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### Financial performance in 2018/19

**59.** The Council approved its 2018/19 budget in March 2018. Budgeted net expenditure was £375.129 million and estimated total income was £388.767 million, resulting in a budget surplus of £13.638 million. Decisions made by the Council at the budget approval meeting to commit this surplus to a number of different projects, resulted in the amended projected year end position for 2018/19 being a deficit of £1.131 million.

**60.** The budget was aligned to the Council's strategic priorities. To inform the budget each directorate produces income and expenditure estimates based on the Service Improvement Plans (SIPs). SIPs outline the activities of each directorate and how these support the delivery of the Council Plan.

**61.** The Council has a good track record in delivering services within budget. The Council achieved a surplus of £5.936 million in 2018/19 against a budget of £5.893 million. Note that decisions during 2018/19 resulted in changes to the original budget projection (a £1.131 million deficit as per paragraph 59).

### Housing revenue account

**62.** The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The HRA recorded expenditure in 2018/19 of £55.513 million (2017/18: £55.291 million). Overall the HRA recorded a breakeven position in 2018/19 against budget for the year and maintains a positive balance of £6.807 million.

### Reserves

**63.** One of the key measures of the financial health of a local authority is the level of reserves held. The Council has increased its useable reserves steadily since 2013/14 and has historically had a high level of reserves in comparison to most other councils in Scotland. The majority of reserves are statutory or ring-fenced and aligned to future spending plans and strategic objectives.

**64.** The overall level of usable reserves held by the Council increased by £5.199 million from £149.407 million in 2017/18 to £154.606 million in 2018/19, this was primarily driven by the £5.936 million surplus reported on service expenditure for 2018/19. A table showing all reserves movements is included in Exhibit 4.

## Exhibit 4

### Movements in useable reserves in 2018/19

|                            | Opening<br>£m  | Used<br>£m      | Added<br>£m   | Closing<br>£m  |
|----------------------------|----------------|-----------------|---------------|----------------|
| General Fund (Unallocated) | 7.094          | -               | 0.043         | 7.137          |
| General Fund (Ring-fenced) | 38.114         | (8.673)         | 22.566        | 52.007         |
| Housing Revenue Account    | 6.807          | -               | -             | 6.807          |
| Revenue Statutory Funds    | 2.858          | -               | -             | 2.858          |
| Capital Receipt Reserve    | 7.617          | (2.532)         | 2.932         | 8.017          |
| Capital Statutory Funds    | 86.917         | (11.406)        | 2.269         | 77.780         |
| <b>Total</b>               | <b>149.407</b> | <b>(22.611)</b> | <b>27.810</b> | <b>154.606</b> |

Source: Audited Accounts 2018/19

**65.** Other than the Capital Statutory Funds, which is being maintained for future capital investment and future loan payments, the general fund reserve is the largest reserve, with a balance of £59.144 million. Although the general fund reserve has no restrictions on its use, £52.007 million has been ring-fenced for future expenditure plans.

**66.** The Council reviews the level of its unallocated reserves when setting the budget each year. The Council's approved reserves strategy specifies that uncommitted reserves should be between 1% and 2% of net revenue and not be lower than £7 million. The level of uncommitted general fund reserves as at 31 March 2019 was £7.137 million (1.7% of net revenue), which is within the limits set out by the strategy and provides a contingency fund to meet unexpected expenditure.

### Capital programme 2018/19

**67.** Three year rolling plans for capital expenditure are approved by the Council as part of the budget setting process each year. In March 2018, Renfrewshire Council approved a capital budget of £78.836 million for 2018/19 (including £15.440 million of spend on housing related projects). A further £9.184 million of capital spend was approved in year. A table setting out capital budget and spend is included in Exhibit 5.

**68.** Capital expenditure in 2018/19 was primarily funded through borrowing (£27.738 million) and capital grants (£30.880 million). With the remainder being funded from revenue and asset sales.

## Exhibit 5

### Analysis of capital spend in 17/18 and 18/19

| Year    | Approved Capital Spend* | Capital Spend Relating to Plans Approved in Prior Years | Capital Spend Relating to Current Year Plan | Total in Year Capital Spend |
|---------|-------------------------|---------------------------------------------------------|---------------------------------------------|-----------------------------|
|         | (£ millions)            | (£ millions)                                            | (£ millions)                                | (£ millions)                |
| 2017/18 | £104.4                  | £19.3                                                   | £53.3                                       | £72.5                       |
| 2018/19 | £88.0                   | £21.5                                                   | £45.2                                       | £66.7                       |

\*Includes spend approved by committee during the year

69. As noted in our [May 2019 management report](#), the Council has a history of rescheduling its capital programme, which has continued in 2018/19. We made the following recommendations in our management report:

- Management should put in place processes to improve the accuracy of forecasting within the capital budget monitoring reports.
- Management should consider including details of the estimated completion date (or key milestones), the total project budget and the total project spend for key projects in monitoring reports.

70. Capital rescheduling has led to the deferral of spend to future periods. In total, £42.828 million of capital expenditure was decelerated as a result of changes to the capital plan. £21.513 million of commitments were brought forward into 2018/19. All services experienced deceleration with Development and Housing disclosing the greatest figure.

## Systems of internal control

71. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

72. The Council implemented an enterprise resource planning system (Business World), in October 2018 which combines finance, HR, payroll and procurement into a single integrated application. As part of our audit work we reviewed and assessed the new processes and related controls in the following systems:

- General Ledger
- Payroll
- Accounts Receivables
- Accounts Payable
- Bank and Treasury Management
- Capital.

73. Our findings were included in our management report that was presented to the Audit, Risk and Scrutiny Board in May 2019 as summarised below:

- following the introduction of Business World, the monthly accounts receivable reconciliation has been carried out at council group level rather than for the individual group components, increasing the risk of error in the annual accounts

- the implementation of Business World has required additional manual processes to be put in place for the daily processing of payments. Where these additional procedures have been put in place, adequate controls have also been implemented. However manual processes are less efficient and with an increased risk of error
- a large number of staff can post journals without the standard approval process, increasing the risk of inaccurate journals being posted.

## Standards of conduct for prevention and detection of fraud and error and National Fraud Initiative

**74.** The Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

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

**76.** NFI activity is summarised in [Exhibit 6](#). This covers the latest NFI review which covered 2018/19 matches and was completed in 2019. The NFI secure website lists a total of 5,963 data matches for this review with 285 of these classed as 'recommended' matches (high risk) for investigation.

### Exhibit 6 NFI activity



5,963

**Matches**



285

**Recommended for  
investigation**



1,489

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

**77.** The Internal Audit Annual Report was presented to the Audit Committee in May 2019 which summarised the NFI activity carried out to date. The Chief Internal Auditor, who is responsible for directing and reviewing NFI work, continues to co-ordinate and support the work of key officers involved in investigating or re-checking matches.

**78.** From our review, we concluded that the Council are reasonably engaged with the NFI exercise. NFI is factored into the counter fraud team's workplan, and there are arrangements in place to monitor NFI work across the organisation. Also, the NFI database is being used for all matches, and is being appropriately updated.

**79.** However, progress in processing matches (including high/medium risk matches) is slower than the sector average, and the detail of reporting of NFI progress to the audit committee could be improved,

# Part 3

## Financial sustainability



### Main judgements

The Council and its wider group financial position is sustainable into the foreseeable future, although rising demand and increased acuity of demand coupled with increasing costs and reductions in central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

Medium financial plans are aligned to the Council's corporate priorities and clearly demonstrate how the organisation intends to address future financial challenges. The Council undertakes robust financial modelling based around the three scenarios of "best case", "worst case" and "most likely" outcome. It has forecast that the funding gap for the three-year period from 2020 to 2023 is in the range of £26 million to £67 million. Prudently the Council is focussing on the "most likely" outcome as the basis for its medium term financial projects which still results in an estimated budget gap of some £45 million.

Appropriate action is being taken through the Council's Transformation Programme to address the projected funding gap of £45 million and financial projections are regularly reviewed to ensure that they remain as reliable as possible. The transformation programme has a broad scope and includes ambitious solutions to the financial challenge including assessing alternative means of service delivery and possible service reductions.

The scale of the financial challenge is such that the Council will not be able to successfully deliver the required savings in isolation and it will need to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings. Success in this area will inevitably require difficult decisions on the part of Elected Members.

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

### Financial planning

**80.** The Council approved its 2019/20 budget in February 2019. The forecast net expenditure was set at £402.816 million, as shown in Exhibit 7. A surplus of £5.832 million was forecast in the original budget paper, however the budget was amended by a motion at the council meeting which made significant changes to the proposed budget, including:

- a 4.79% increase to council tax charges across all bands
- £67 million of investment into road, cycling and pathways, and schools
- various other allocations of revenue funding.

**81.** The Council does not publish an updated budget for decisions made during the approval process, therefore the impact of the changes on the planned surplus is not clear. As noted in paragraph 58, we recommended that the Council publishes

an amended budget to reflect decisions made by members during the budget approval process in our [May 2019 management report](#).

## Exhibit 7

### Budget overview 2019/20

|                          | (£ millions) |
|--------------------------|--------------|
| Forecast Income          | 408.648      |
| Forecast Expenditure     | 402.816      |
| <b>Forecast Surplus*</b> | <b>5.832</b> |

\*Per original budget paper, subsequently amended by council decision

Source: 2018/19 Budget Proposal

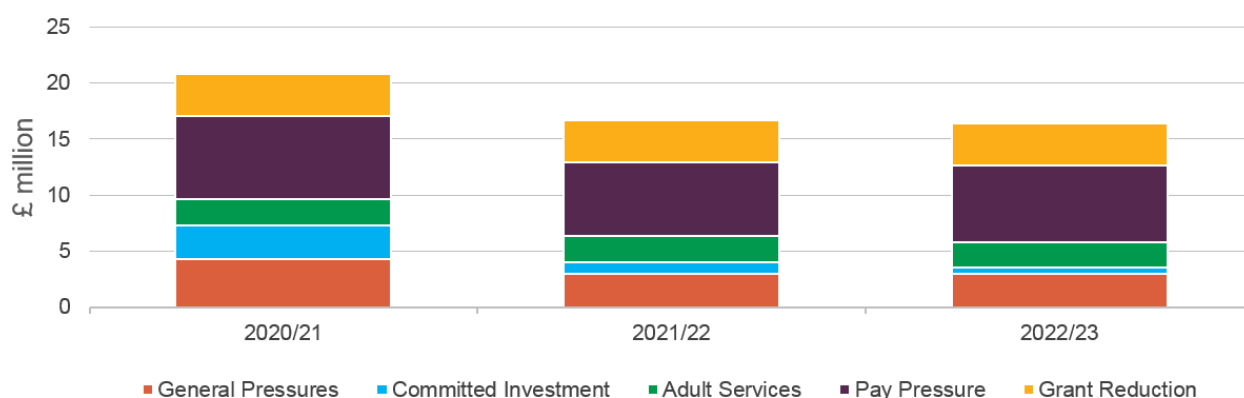
**82.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although Councillors only approve the budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures on the Council.

**83.** Renfrewshire Council's Financial Outlook 2020 – 2023 was presented to the Leadership Board in September 2019 and highlighted a net budget gap of between £26 - £67 million over the three year period.

**84.** For financial planning purposes, the Council is progressing on a central financial planning scenario with an estimated forecast budget gap of approximately £45 million due to a combination of pressures on pay and adult services, committed investment and also an expected reduction in grant funding. The expected impact across the period 2020/21 to 2022/23 is illustrated in Exhibit 8.

## Exhibit 8

### Identified future funding pressure 2020/21 – 2022/2023



Source: Renfrewshire Council Financial Outlook 2020 - 2023

**85.** Renfrewshire Council plans to address the funding pressures through a combination of service savings and the proposed transformational change programme. Council plans also acknowledge the option of further council tax increases to balance future budgets.

## Business transformation

**86.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2019\*](#) (April 2019) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.

**87.** In June 2019 the Council presented a paper to the Leadership Board to announce the next phase of the transformation and change programme. In September 2019 a further report provided additional detail on the next phase of the programme.

**88.** This is the fourth major phase of a longer term programme and is a permanent and recurring feature of the Council's strategic agenda. The current (third phase), known as the Better Council Change Programme (BCCP) will be superseded by phase 4, branded '**Right for Renfrewshire**'.

**89.** The Council intends to implement a structured service redesign process and this will be progressed in phases over a number of years. The Council's ambition is to modernise how it operates as an organisation and to support a greater pace of change in the use of new digital resources.

**90.** To manage the estimated £45 million budget gap over the three year period, the Council recognises this will be achieved through a range of measures in addition to the transformation programme. The Council has estimated that up to £20 million of net saving/cost mitigation measures can be secured out-with the transformation programme. Therefore, the Council expects to deliver sustainable and recurring savings of up to £25 million over the next three years as part of the next phase of the Transformation Programme.

**91.** The Council has outlined the service areas for inclusion in phase 1 of the new transformational programme and which will contribute to the Council's budget setting cycle for 2020/21.

**92.** The Council's transformation programme has identified projects aimed at reviewing and changing the way some services are delivered. The Council will need to work closely with all partners as it develops its approach to achieving future savings and efficiency requirements. It is essential that the Council's transformation agenda identifies alternative means of service delivery that will deliver sustainable savings to meet the projected cumulative budget gap.



### Recommendation 7

**The Council will not be able to successfully deliver the required savings in isolation. We recommend the Council continues to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings.**

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## Changing landscape for public financial management and medium to long term financial planning

**93.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

**94.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year

Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**95.** In November 2016 the Council's Leadership Board approved the establishment of an Economic Leadership Panel to develop a collaborative approach to the development of the Renfrewshire economy and to lead and advise on the development of a longer-term economic strategy for Renfrewshire.

**96.** In addition to private sector representation on the Panel, other senior stakeholders have joined from the University of the West of Scotland, West College Scotland, Scottish Enterprise and Skills Development Scotland. The Council is represented on the Panel by the Council Leader and Chief Executive.

**97.** The Panel has been meeting since August 2017 to consider how best to develop, grow and support Renfrewshire's economy. A series of sectoral groups have supported the main Panel to look at specific issues relating to manufacturing, creative industries, tourism, care and transport/infrastructure.

**98.** The Strategy was approved in September 2019 and sets out the Council and partners' mission to strengthen the Renfrewshire economy in ways which people, businesses and places can contribute to and benefit from that growth.

## City Deals

**99.** The £1.13 billion Glasgow City Region City Deal (GCRCD) is an agreement between the UK Government, the Scottish Government and eight local authorities across the Glasgow City Region. Renfrewshire Council is the lead authority on three City Deal infrastructure projects with funding of £274 million.

- **The Glasgow Airport Investment Area Project** (GAIA £39.1 million) will deliver a new bridge across the White Cart and new cycle routes; all aimed at improving connections between the Westway and Airport Business Parks. The GAIA works will act as an enabler for the delivery of an internationally recognised district for innovation, research and manufacturing – The Advanced Manufacturing Innovation District Scotland (AMIDS). The project has already attracted major investments including:
  - Lightweight Manufacturing Centre (LMC)
  - National Manufacturing Institute for Scotland (NMIS) £65 million
  - Medicines Manufacturing Innovation Centre (MMIC) £56 million.
- The core AMIDS and GAIA Infrastructure contracts have been awarded and construction commenced in June 2019. Capital expenditure to 31 March was £7.952 million to 31/03/2019.
- **The Clyde Waterfront and Renfrew Riverside Project** (CWRR - £90.7 million) includes the construction of a new opening bridge across the River Clyde, which will accommodate vehicles, pedestrians and cyclists, and the construction of the Renfrew North Development Road to better link communities and businesses on both sides of the river. In November 2018, planning permission was granted by the Scottish Government. Capital expenditure to 31 March was £14.134 million.
- **The Airport Access Project** (AAP - £144.3 million), due to its importance to the overall Infrastructure Fund Programme, is designated as one of only two 'regional' projects in the programme. The project is being jointly delivered by Renfrewshire Council and Glasgow City Council. The project originally aimed to deliver a new direct rail link between Glasgow Airport and Glasgow Central Station.

- In April 2019 a report was considered by the Glasgow City Region – City Deal Cabinet in relation to the AAP. The report identified the implications of the work that has been undertaken on the way forward for the project, and in particular the recommendation that Personal Rapid Transport (PRT) is adopted as the new preferred option for the Airport Access Project. The report recommended that further work is done to develop out the PRT option and note that the costs required shall be contained within existing approvals. Capital expenditure to 31 March was £2.404 million.

## Workforce planning

**100.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2019 \(April 2019\)\*](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**101.** The report advises Councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**102.** The Council's Workforce Plan was approved by the Finance, Resources and Customer Service Policy Board in November 2017. Since then the Council has made good progress in developing workforce planning arrangements and provide regular progress updates on the Council's Organisational Development Strategy to both the Corporate Management Team (CMT) and Trade Unions. Since February 2019 CMT also carry out spotlight sessions on each service workforce plan which provides a more focussed review by service.

**103.** In June 2017 the Council launched the managerial and leadership development programmes over 150 delegates, across middle and senior management groups attending in the initial tranche. In 2018/19 the 'Leaders of the Future', 'ASPIRE' and the Chartered Management Institute (CMI) Levels 2 and 3 development programmes have continued to be rolled out, with 417 managers and leaders from throughout the Council participating across the various programmes. A new CMI Level 5 programme was launched in May 2019 and a level 7 CMI qualification is currently being scoped.

**104.** The Council has undertaken a corporate people development review. This has resulted in a new range of flexible development opportunities and accredited qualifications which the Council will roll out later in 2019. It is intended that the provision of future corporate training will offer more accessible, on-demand and digital training courses, to support the transformational change programme.

**105.** Since 2017/18 the Scottish Government has allocated £10 million each year to the Flexible Workforce Development Fund (FWDF). Eligible employers can use the FWDF to address priority skills gaps in their organisation by accessing up to £15,000 in funding to create tailored training programmes with their local college.

**106.** The Council accessed this funding to help support the digital skills programme in 2018 which provided 100 front line employees with basic training to improve their digital skills. For 2019, funding of £15,000 has been secured from the FWDF to support digital skills training across the wider workforce.

**107. Carer Positive** aims to encourage employers to create a supportive working environment for carers in the workplace. The **Carer Positive award** is presented to employers in Scotland who have a working environment where carers are valued and supported. Carer Positive employers recognise the importance of retaining experienced members of staff, reducing absence, and cutting down on avoidable recruitment costs. The Carer Positive award is presented to employers in Scotland who have a working environment where carers are valued and supported. Carer Positive employers recognise the importance of retaining experienced members of staff, reducing absence, and cutting down on avoidable recruitment costs. In January 2019 the Council was recognised as a "Carer Positive Employer".

**108.** In May 2019 the Council reported progress in reducing the Council's gender pay gap to 3.58% or £0.55 in favour of men. This is a drop of just over 1% from April 2018, with ongoing action by the Council to reduce the pay gap further.

## EU Withdrawal

**109.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**110.** Regular updates are being provided by the Council's Leadership Board. Papers presented in May 2019 highlight three main areas of concern:

- Impact in relation to contracts for goods and services through supply chain issues
- Impact on regulatory services such as trading standards and food inspection
- Implications for employees and services in relation to residency and immigration.

**111.** These updates provide assurance for the Council that they are as well prepared as possible for the outcome of EU withdrawal and to deal with any issues which may arise. EU withdrawal is a regular agenda item at the Leadership Board meetings and consideration is given to a wide range of potential issues, such as legal and trade implications, that could occur on EU withdrawal.

**112.** Consideration has also been given to how these might impact Renfrewshire Council, and the Council's arrangements for addressing these issues. The Chief Executive previously chaired a weekly Brexit Readiness Group which co-ordinated and implemented all actions required to prepare for a no deal scenario. Regardless of the outcome the longer term impacts will require to be effectively managed by the Council and partners. To respond to these impacts, a Strategic Brexit Officer Group has been established within the organisation. This is a senior officer group which is chaired by the Director of Finance and Resources.

**113.** The Council has recognised the risks associated with EU withdrawal in its risk register. This lists various risks, together with a risk score. Controls in place to mitigate the impact to the Council are recorded in the risk register.

**114.** The Council is well prepared to deal with the impact of EU withdrawal.

# Part 4

## Governance and transparency



### Main Judgements

**The scale of the financial challenge is such that the Council will not be able to successfully deliver the required savings in isolation and it will need to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings. Success in this area will inevitably require difficult decisions on the part of Elected Members.**

**Constructive and effective challenge is essential to good governance and meaningful scrutiny. Historically, we have reported that Elected Members do not take full advantage of the technical and behavioural skills training and development opportunities available to them. Whilst we recognise that there have been improvements in this area, further action is required by Elected Members to review their individual training requirements with a view to agreeing tailored personal development plans to ensure they deliver, and are seen to deliver, the challenge and scrutiny that is expected of them.**

Good governance and transparency is the result of effective scrutiny and decision making arrangements, leadership and clear, public reporting, of financial and performance information.

### Governance arrangements

**115.** Renfrewshire Council has a board structure in place which is underpinned by clear roles for members and officers; and procedural documentation regarding decision making. Business is conducted through the Council meeting, the Leadership Board and a number of other policy boards as well as the Audit, Risk and Scrutiny Board. The Council's decision and delegation arrangements are regularly reviewed to ensure they support its key priorities.

**116.** All boards have members from the different political parties. The administration has a majority membership in each of the four policy boards with the remaining membership being from the opposition groups and parties. The conveners of policy boards are members of the administration. The Convener of the Audit, Risk and Scrutiny Board is an opposition member.

**117.** Governance arrangements within the Council are operating effectively and support good governance and accountability.

**118.** Papers provided by Council officers to the Council and its Boards are of a high standard and provide members with a good overview of the issues being covered as well as additional information, where appropriate. This supports constructive debate of issues at meetings.

### Openness and transparency

**119.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and

transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**120.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**121.** The Council conducts its business in an open and transparent manner.

**122.** There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other boards. Minutes of these committee meetings and supporting papers are available on the Council's website. Most items on committee agendas are covered in open session at meetings rather than in private.

**123.** The Council webcasts its main Council meetings and all agenda papers and minutes, including the annual accounts are on the Council's website and made available in the public gallery and its reception.

**124.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website is encouraging the public to sign up for e-alerts. The service became available from 1 August 2018 and allows the public sign-up to news they want to receive on the website and get it delivered straight to their inbox. Initially this will cover information on Council news, What's On, Business news, Paisley town centre updates and updates for parents on schools and nurseries.

**125.** The management commentary that accompanies the financial statements clearly explains to readers how the council has performed against its revenue and capital budgets and how this is reconciled to the financial statements.

## Training and development for Councillors

**126.** In our 2016/17 BVAR we noted that while the Council has provided training, historically Councillors have not made the most of the training and development opportunities available to them.

**127.** Officers continue to make changes to the training and development programme, including the use of external speakers, offering twilight sessions and delivering focused weeks of training and development once a year.

**128.** In our 2017/18 Annual Audit Report, we highlighted that the register of all training courses run for members during the year identified that there was a mixed level of attendance, including some members who have attended very few of the training courses offered. We recommended that to ensure members continue to attend training that is relevant to their role within the Council it would be beneficial for all Councillors to have a personal development plan (PDP) in place which is reviewed on an annual basis.

**129.** Elected members are reminded regularly of the support available to develop their own PDPs. The Improvement Service recognises that not all elected members will make use of the learning opportunities offered regardless of the support available and will choose to access learning at their own pace.

**130.** To make it easier for elected members to access continuing professional development (CPD) training resources at a time and place of their choosing, the full range of Improvement Service workbooks are now available in the online Members' Library.



## Recommendation 8

**We recommend that further action is required by Elected Members to review their individual training requirements with a view to agreeing tailored personal development plans to ensure they deliver, and are seen to deliver, the challenge and scrutiny that is expected of them.**

### Integration of health and social care

**131.** The Renfrewshire Integration Joint Board (RIJB) is provided as a partnership between Renfrewshire Council and NHS Greater Glasgow and Clyde Health Board. Both partners agree delegated budgets for health and social care services with RIJB on an annual basis, which has control over how these services are delivered. For Renfrewshire Council the services delegated to the IJB are broadly adult social care.

**132.** Renfrewshire Council includes its share of RIJB's result for the year and reserves within the Renfrewshire Council group accounts.

**133.** Despite the surplus generated in 2018/19, RIJB is forecasting significant budget pressures in the medium term which will require mitigation through service savings and potentially require additional funding from partners, including Renfrewshire Council. As noted in Exhibit 10, the Council has factored expected pressures on adult social care into its financial planning.

**134.** Audit Scotland published [\*Health and Social Care Integration - Update on Progress\*](#) in November 2018. This report set out six areas it considers need to be addressed nationally to demonstrate integration is making a meaningful difference to the people of Scotland. Following this, the Ministerial Strategic Group developed a self-evaluation template to allow integration authorities to assess their current positions and identify required actions to progress key areas. RIJB has developed an action plan in collaboration with integration partners (including Renfrewshire Council) in response to the report.

# Part 5

## Value for money



### Main judgements

The Council continues to make good progress addressing the recommendations contained in our 2016/17 Best Value Assurance Report. Key to this has been the development and implementation of a performance management framework. The framework is now well embedded across the organisation and Managers and Councillors clearly understand the framework and how it works, which, provides a sound base for further improvement across the Council.

Overall, Renfrewshire sits in the middle ground for performance when compared to the rest of its family group within the Local Government Benchmarking Framework. Performance is in the top quartile for nearly one-third of the 70 indicators and over the last 12 months the Council has demonstrated improved performance in 41 indicators. At the same time performance has remained stable in a further 10 indicators but declined against the remaining 19 indicators.

The Council actively considers performance against its corporate priorities and objectives and has established a range of improvement activities working in parallel which are clearly linked to key objectives and the budget setting process.

A locality plan for Renfrewshire was published in 2017 and focussed on a community of interest; the outcomes being experienced by people living in the 5% most deprived communities. The locality plan identifies broad improvement outcomes it does not make clear the localities where the actions will be focussed, and nor does it set out key milestones or timescales against which progress can be measured.

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

### Best value

**135.** Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for the Council was published on 31 August 2017.

**136.** The BVAR concluded that the Council has a clear and ambitious vision for Renfrewshire to revitalise the area's economy and address poverty and inequality. This vision is supported by the Council's partners and the Council Plan; management structures and performance management processes are also well aligned to the vision.

**137.** We also highlighted key areas where the Council should focus its improvement activities on going forward. The report made seven recommendations relating to areas for further development including cross party working, community engagement, partnership working, financial sustainability, workforce planning and governance arrangements.

**138.** The latest update on progress against the recommendations was reported to the Leadership Board in June 2019. Progress in implementing the recommendations continues to be monitored by the Corporate Management Team on a 6 monthly basis, with the next update to elected members scheduled for December 2019.

**139.** The Council continues to make good progress in implementing the recommendations from the 2016/17 Best Value and Assurance Report. We will continue to monitor the Council's progress against the improvement actions.

## Community planning

**140.** The 2016/17 BVAR reported that Community Planning partners need to plan their budgets and finances together to provide a clearer picture of the overall resources available.

**141.** A key priority within Renfrewshire's Community Plan 2017-2027 is to develop a Community Planning Partnership that is sustainable and connected. Partners continue to provide regular feedback on the financial outlook for their respective organisations, and identify opportunities to work together to deliver more efficient services and improved outcomes.

**142.** The Community Planning Partnership reported progress against the Community Plan in September 2018. This highlighted positive achievements in terms of narrowing of the attainment gap, increased levels of volunteering and implementation of new governance arrangements.

**143.** A positive example is the recently established Alcohol and Drug Commission whose first meeting was held in March 2019. This is a Community Planning Partnership sponsored commission which aims to assess the true impact of drug and alcohol misuse on local communities in Renfrewshire, and to make recommendations which would enable partners to support improved outcomes for local people and communities.

**144.** The Commission will hear evidence between March to December 2019 and initial recommendations are due to be reported in early 2020. The Commission has been asked to establish a true picture of drug and alcohol use in Renfrewshire, and to make recommendations on what partners can do together to support local people and communities adversely affected by drug and alcohol use and to improve life outcomes. Employability will be a key element of the recovery focus.

## Community engagement

**145.** The 2016/17 BVAR report also concluded that the Council and its partners need to continue to involve communities and work together on joint priorities to strengthen partnership working and to ensure the Community Empowerment (Scotland) Act 2015 is fully implemented.

**146.** The community planning partnership has an appropriate structure in place which reflects community planning guidance. The membership of the various groups which form the wider governance structure includes a wide range of stakeholders. A Forum for Empowering Communities is well established to encourage community engagement with community planning matters. This meets quarterly and involves a variety of third sector and community groups.

**147.** The Community Empowerment (Scotland) Act 2015 requires community planning partnerships to identify areas experiencing significantly poorer outcomes and to prepare a locality plan which provides details on local outcomes, proposals for improvements and timescales for achieving these.

**148.** A locality plan for Renfrewshire was published in 2017 and focussed on a community of interest; the outcomes being experienced by people living in the 5% most deprived communities. Targeted activity in these areas is being delivered

through the Tackling Poverty programme and through the new Improving Life Chances Board.

**149.** The plan identifies broad outcomes for improvement, but it does not refer to localities where action will be focused nor are clear timescales for achieving these set out. While the locality plan makes reference to broader Council activities, the links between these and the locality plan objectives are not clear. Progress against the Locality Plan as published was reported in September 2018.



### Recommendation 9

**The council should clarify within the locality plans the localities where outcomes for improvement will be focused and specify the timescales for achieving these.**

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**150.** Seven local partnerships have been formed to replace the previous local area committees, each covering an area within Renfrewshire. These aim to promote community involvement in the process of community planning. First official meetings were held in early 2019, with every partnership agreeing on specific priorities for their areas and actions to address these. The next phase of work will involve developing participatory budgeting arrangements and more detailed local action plans during 2019/20.

**151.** Local area partnerships will play a key role in grant distribution locally. Guided by the priorities they have identified, they will have responsibility for distributing three funding streams in Renfrewshire. Guidance has been updated by the Council to support this process. The first round of applications was considered in June 2019.

**152.** The Council has appropriate governance arrangements in place for community asset transfers. The Act requires that an annual report on community asset transfers is completed by 30 June. The Council did not complete this until August 2019.

**153.** Overall, the Council and its Community Planning Partners have put in place policies and procedures designed to ensure compliance with the Community Empowerment (Scotland) Act 2015. There remains some areas where compliance could be improved.

## Performance management

**154.** The Council reports their progress against the Council Plan to the Leadership Board every six months. The most recent update showed that, as of May 2019, good progress was being made. Of the 55 actions within the Council Plan, 22 had been completed, 32 were in progress and 1 was overdue.

**155.** There are Service Improvement Plans (SIPs) for all key service areas. They contain detailed action plans which link to the priorities in the Council Plan. They are also closely linked to other relevant plans, including Renfrewshire's Community Plan and Local Outcome Improvement Plan. Progress against SIP indicators is reported to relevant policy boards every six months. These are the forums where Councillors can challenge how services are performing.

**156.** Performance information is also accessible through the Council's "[Our Current Performance](#)" webpage. This includes performance progress updates on the SIPs and the Council Plan. The webpage also links to the Council's annual report, *It's all about you*. This reports performance against indicators that the public have told the Council they are most interested in. The presentation of the report has been refreshed to take account of public requests to have a more accessible and easier to read format. The Council reports performance against the full set of 70 indicators

in the Local Government Benchmarking Framework to the Audit, Risk and Scrutiny Board.

**157.** The Council has launched a new digital news service which provides a variety of updates covering all of council services, schools and nurseries, what's on in the area, the town centre investment and news for businesses. The digital news service is being rolled out by Renfrewshire Council for residents and businesses.

**158.** The Council has an established performance management framework that managers and Councillors clearly understand, which provides a sound base for ongoing and continuous improvement.

## Overview of performance targets

**159.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**160.** The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was submitted to the Audit, Risk and Scrutiny Board (AR&SB) in March 2019. The overall conclusion was that the Council performed well in comparison to other Councils.

**161.** The Audit, Risk and Scrutiny Board receives regular performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities. Based on the most recent report several positives were highlighted including:

- Cost per primary school pupil - rank 1
- Cost of trading standards and environmental health per 1,000 population - rank 1
- Percentage of unemployed people assisted into work from Council operated/funded employability programmes – rank 1

**162.** At the same time the Council recognises that it can improve service delivery in several key areas such as percentage of adults satisfied with street cleaning, net cost of waste disposal per premises and the cost of museums per visit.

**163.** Action plans have been developed that set out in SMART terms (Specific, Measurable, Action-oriented Realistic, Timescales) what is being done to improve performance. These are monitored and reviewed by Policy Boards, with national benchmark performance being reviewed by the AS&RB to assess progress.

**164.** The Local Government Benchmarking Framework allows Councils to compare themselves to the Scottish average. It also groups Councils with similar profiles into family groups based on factors such as population density and levels of deprivation. This allows similar Councils to compare and benchmark performance.

**165.** Compared to 2016/17, and based on the partial data reported to the AR&SB in March 2019, Renfrewshire Council's performance has improved on 41 indicators, declined on 19 and remained stable for 10 indicators. The Council is in the top quartile for 22 of the 70 indicators. Relative to its family group, Renfrewshire tends to sit in the middle ground for performance.

## Statutory performance indicators (SPIs)

**166.** The Accounts Commission places great emphasis on Councils' responsibility for public performance reporting. The commission does not prescribe how Councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**167.** For 2018/19 two SPIs were prescribed:

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

**168.** We reviewed the Council's arrangements for collecting, recording and publishing data in 2018/19. Information is publicly available on the Council website, with the main SPI report published as well as a summary version. 'It's all about you' provides a graphical and pictorial presentation of performance data.

**169.** An internal audit report in December 2018 sampled a small number of performance indicators and noted issues with the collection and/or verification process in a majority of cases. The findings have been communicated to those responsible in collation of performance indicator data and management have re-enforced the need for staff to follow protocol. Management should continue to monitor the collection process to ensure the performance data is accurate and verifiable.

## Housing benefits performance work

**170.** As part of our remit to carry out Housing Benefit Audit Risk Assessments across Local Authorities in Scotland, an assessment was undertaken at the Council in October 2018.

**171.** The main objective of the risk assessment is to determine the extent to which the benefit service within the Council is meeting its obligations to achieve continuous improvement in all its activities. A risk assessment report was issued in December 2018 to the Council which incorporated an agreed action plan to address the risks identified.

**172.** The report noted that the Council demonstrates an awareness of what an effective, efficient and secure benefit service needs to deliver and made three recommendations to address risks to continuous improvement. The report also noted that actions agreed following a previous risk assessment in 2015 have been completed.

**173.** At the Audit, Risk and Scrutiny Board in May 2019, the Council reported that the recommendations have been well progressed and will make a positive contribution to the continuous improvement of the benefits service.

## National performance audit reports

**174.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

**175.** Arrangements are in place for the Council to consider national reports. These are presented to the Audit, Risk and Scrutiny Board and members are made aware of key issues. The Council routinely reports the Council's position in respect of the key issues reported. Action taken in response to reports is dependent on the nature of the national report and the service to which it relates.

# Appendix 1

## Action plan 2018/19

| No. | Issue/risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Recommendation                                                                                                                                                                                                                         | Agreed management action/timing                                                                                                                                                                                                                                                                                                                                    |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | <p><b>Preparation of Annual Accounts</b></p> <p>Balances within the financial ledger in respect of trade receivables and trade payables were not properly reflected within the accounts presented for audit. Journals continued to be posted to the ledger after the accounts had been provided to audit at the end of June 2019 and working papers included a number of complex balances resulting from the change in accounting system.</p> <p><b>Risk</b> – There is a risk that similar issues result in errors within the 2019/20 annual accounts.</p> | <p>We recommend that the Council's review of the audit findings highlighted within our management report inform the future close-down procedures for the preparation of the year end accounts.</p> <p><a href="#">Paragraph 25</a></p> | <p>The operation of trade receivables and trade payables within Business World is under review with reconciliations being undertaken more frequently. Development of the system is being undertaken to ensure the risk is mitigated in future years.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance</p> <p><b>Agreed date:</b></p> <p>31 March 2020</p> |
| 2   | <p><b>Process for Identification of Internal Recharges</b></p> <p>The 2018/19 Code requires that internal recharges are removed from each service within the CIES.</p> <p>We confirmed that management had processed this change, and concluded that the figures in the CIES are materially accurate. However, we noted that there is scope for improvement in the Council's process to accurately and efficiently identify internal recharge transactions.</p>                                                                                             | <p>Management should take steps to improve the accuracy and efficiency of the process to identify internal recharge transactions.</p> <p><a href="#">Paragraph 26</a></p>                                                              | <p>A review of the processes for internal recharging will be undertaken by Finance staff with a view to eliminating unnecessary charges. Development of the system will be undertaken to better identify internal transactions.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance</p> <p><b>Agreed date:</b></p> <p>31 March 2020</p>                      |
| 3   | <p><b>Whole of Government Accounts</b></p> <p>The Council's WGA submission was late in both 2016/17 and 2017/18, resulting in a qualified audit opinion on the 2017/18 WGA return.</p> <p><b>Risk</b> – Future WGA submissions may not be submitted in line with the agreed deadline.</p>                                                                                                                                                                                                                                                                   | <p>Management should put in place processes to ensure future WGA submissions are prepared in accordance with the required NAO timetable.</p> <p><a href="#">Paragraph 33</a></p>                                                       | <p>A wholesale review of closedown processes, deadlines and responsibilities will be undertaken for the 2019/20 accounts and this will incorporate WGA.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance</p> <p><b>Agreed date:</b></p>                                                                                                                   |



| No. | Issue/risk                                                                                                                                                                                                                                                                                                                                                                    | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                    | Agreed management action/timing                                                                                                                                                                                                                                                     |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4   | <p><b>Renfrewshire IJB Funding Arrangements</b></p> <p>Renfrewshire Council holds earmarked reserves of £1.232 million and other balances of £1.203 million relating to services that have been delegated to RIJB.</p> <p><b>Risk</b> – There is a risk that the existing funding arrangements may not be transparent.</p>                                                    | <p>We recommend that the Council review the existing funding arrangements with RIJB and consider how any future arrangements will be processed to improve transparency.</p> <p><a href="#">Paragraph 49</a></p>                                                                                                                                                                                                                                   | <p>Balances attributable to the RIJB will be drawn down during 2019/20.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance</p> <p><b>Agreed date:</b></p> <p>31 March 2020</p>                                                                                               |
| 5   | <p><b>Public notice</b></p> <p>The Local Authority Accounts (Scotland) Regulations 2014 required the Council to give public notice for inspection and objection of the 2018/19 unaudited annual report and accounts by 17 June 2019. The public notice was published on the website on 26 June 2019 and in a newspaper on 28 June 2019, meaning this deadline was not met</p> | <p>The Council should review its procedures to ensure the statutory deadline is achieved in future years.</p> <p><a href="#">Paragraph 51</a></p>                                                                                                                                                                                                                                                                                                 | <p>A wholesale review of closedown processes, deadlines and responsibilities will be undertaken for the 2019/20 accounts and this will incorporate the public notice.</p> <p><b>Responsible officer:</b></p> <p>Head of Finance</p> <p><b>Agreed date:</b></p> <p>31 March 2020</p> |
| 6   | <p><b>Budgetary process</b></p> <p>Budget reports are considered by policy boards throughout the year, however the budget setting and monitoring arrangements could be more transparent.</p>                                                                                                                                                                                  | <p>The Council could improve the transparency of the budgetary process by</p> <ul style="list-style-type: none"> <li>- producing the year end budget report in the same format as the regular budget reports</li> <li>- publishing an amended budget to reflect decisions made by members during budget approval</li> <li>- outlining budget changes from the prior period in each finance report.</li> </ul> <p><a href="#">Paragraph 58</a></p> | <p>The Council will incorporate these suggestions into a fundamental review of corporate financial management and reporting.</p> <p><b>Responsible officer:</b></p> <p>Director of Finance and Resources</p> <p><b>Agreed date:</b></p> <p>30 June 2020</p>                         |
| 7   | <p><b>Transformation Programme</b></p> <p>The council forecasts a net budget gap of £45 million over the three year period 2020/23.</p> <p>In response to this the council is implementing a transformation programme aimed at reviewing and</p>                                                                                                                              | <p>changing the way some services are delivered.</p>                                                                                                                                                                                                                                                                                                                                                                                              | <p>The Council should continue to actively engage with local and national partners to identify areas, and initiate action, to deliver the required level of efficiencies and savings.</p>                                                                                           |

Paragraph 92

The Council will actively engage with relevant stakeholders to ensure the ongoing financial sustainability of the Council and community planning partners.

**Responsible officer:**

| No. | Issue/risk                                                                                                                                                                                                                                                                                                               | Recommendation                                                                                                                                                                                                                                                                                                            | Agreed management action/timing                                                                                                                                                                                                                                                                                                                               |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     |  <p><b>Risk –</b> The transformational change does not deliver the required savings.</p>                                                                                                                                                |                                                                                                                                                                                                                                          |  <p>Director of Finance and Resources</p> <p><b>Agreed date:</b><br/>31 March 2023</p>                                                                                                                                                                                     |
| 8   | <p><b>Training and development for elected members</b></p> <p>Councillors have not made the most of the training and development opportunities available to them.</p> <p><b>Risk –</b> there is a risk that elected members do not have the necessary training to carry out their role effectively.</p>                  | <p>We recommend further action is required by Elected Members to review their individual training requirements with a view to agreeing tailored personal development plans to ensure they deliver, and are seen to deliver, the challenge and scrutiny that is expected of them.</p> <p><a href="#">Paragraph 130</a></p> | <p>Officers will continue to make available a wide range of development opportunities for Elected Members and encourage attendance or participation in these. Elected members will be supported in agreeing individual development plans</p> <p><b>Responsible officer:</b><br/>Head of Corporate Governance</p> <p><b>Agreed date:</b><br/>31 March 2020</p> |
| 9   | <p><b>Community Engagement</b></p> <p>The locality plan identifies broad outcomes for improvement, but it does not refer to localities where action will be focused nor are clear timescales for achieving these set out.</p> <p><b>Risk –</b> There is a risk that outcomes do not focus on the correct localities.</p> | <p>The council should clarify within the locality plans the localities where outcomes for improvement will be focused and specify the timescales for achieving these.</p> <p><a href="#">Paragraph 148</a></p>                                                                                                            | <p>Narrative on agreed action<br/>Locality partnerships have been established and will develop their own action plans which the Council will support to ensure they are “SMART”</p> <p><b>Responsible officer:</b><br/>Head of Policy and Commissioning</p> <p><b>Agreed date</b><br/>30 Sept 2020</p>                                                        |

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk                                                                                                                                                                                                                                                                                                                           | Assurance procedure                                                                                                                                                                                                           | Results and conclusions                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Risks of material misstatement in the financial statements</b>                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>1 Risk of management override of controls</b><br><br>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements. | Detailed testing of journal entries.<br><br>Review of accounting estimates.<br><br>Focused testing of accruals and prepayments.<br><br>Evaluation of significant transactions that are outside the normal course of business. | <b>Conclusion: Our work identified no evidence of management override of controls at the Council.</b>                                                                                                                                                                                                                                                                                 |
| <b>2 Risk of fraud over income</b><br><br>Renfrewshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.                                                                   | Analytical procedures on income streams.<br><br>Detailed testing of revenue transactions focusing on the areas of greatest risk.                                                                                              | We assessed the design of key controls in place at the Council and did not identify any issues that would result in an increased risk of fraud over income.<br><br>Substantive (sample) testing was carried out over all areas of income including Council Tax, non-domestic rates and other income,<br><br><b>Conclusion: we did not identify any evidence of fraud over income.</b> |
| <b>3 Fraud on expenditure</b><br><br>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.<br><br>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over                                               | Analytical procedures on expenditure streams.<br><br>Detailed testing of expenditure transactions focusing on the areas of greatest risk.                                                                                     | We assessed the design of key controls in place at the Council and did not identify any issues that would result in an increased risk of fraud over expenditure.<br><br>Substantive (sample) testing was carried out over all areas of expenditure.                                                                                                                                   |
| expenditure. This applies to                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                       |

| Audit risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Assurance procedure                                                                                                                                                                                                                                                                                                                                                                                                  | Results and conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Renfrewshire Council due to the variety and extent of expenditure incurred in delivering services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Conclusion: we did not identify any evidence of fraud over expenditure.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>4 New accounting system</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p>Renfrewshire Council implemented an enterprise resource planning system (Business World), in October 2018 which combines finance, HR, payroll and procurement into a single integrated application.</p> <p>The implementation of Business World during the 2018/19 financial year means that the annual accounts will be prepared using information recorded both before and after the change in system, under two different control environments.</p> <p>This introduces additional risks:</p> <ul style="list-style-type: none"> <li>• The new control environment may be less robust</li> <li>• Data may not be correctly transferred to the new system</li> <li>• Differences in the new system may make accounts preparation more challenging.</li> </ul> <p>The overall impact of the move to Business World is an increased risk of material misstatement in the annual accounts.</p> | <p>Gaining an understanding of Business World by reviewing process maps and through discussion with key officers.</p> <p>Detailed testing of significant transactions processed during the change period and rolled forward balances.</p> <p>Review of account/cost code mapping from legacy system to Business World.</p>                                                                                           | <p>We reviewed the updated key financial processes and reported a number of minor issues in our management report in May 2019.</p> <p>We tested the accuracy and completeness of the migration of ledger balances and transactions onto Business World, noting no issues.</p> <p>As expected during the implementation of any new system, additional pressure has been placed on staff, particularly in the finance function.</p> <p>We highlighted a significant issue in relation to debtors and creditors balances in the unaudited accounts, which resulted in a modified audit opinion. While this was partially related to an issue with the Business World system, the root cause was likely a combination of staff pressure during the system migration and system teething issues.</p> <p><b>Conclusion: The implementation of Business World has been largely successful, however staff pressures and teething issues likely contributed to errors in the unaudited accounts.</b></p> |
| <b>5 Estimates and Judgements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions.</p> <p>The Council holds a material amount of assets at fair value. The valuations are significant estimates which are based on specialist and management assumptions.</p> <p>The Council's net liability relating to the Strathclyde Pension Fund at 31 March</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.</p> <p>Review of the pension actuary and the assumptions made in calculating the estimated pension liability.</p> <p>Review the provision for doubtful debts to assess whether it is reasonable and complete based on the</p> | <p>We assessed the reliability of experts and reviewed their work where applicable.</p> <p>We sample tested prepayments and accruals recognised in the year end accounts.</p> <p>We assessed the reasonableness of management's provision for doubtful debt.</p> <p>We tested the completeness and accuracy of other provisions within the accounts.</p> <p><b>Conclusion: No issues were identified in relation to</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| Audit risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Assurance procedure                                                                                                                                                                                                                | Results and conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>2018 was £160.466 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>At 31 March 2018 the Council held a provision for doubtful debts of £25.865 million. This provision is based on the assessed likelihood that debts are recoverable.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p>                                                                                                                                                                                                                 | <p>perceived risk that the debt will not be recovered, and in line with historic experience.</p> <p>For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.</p> | <p><b>estimates and judgements within the accounts. (Note that a material adjustment to the pension figures was required, however this related to a change in circumstance following approval of the unaudited accounts and was not an estimation error).</b></p>                                                                                                                                                                                                                                                                                     |
| <p><b>6 Changes to Code of Practice on Local Authority Accounting</b></p> <p>There are two changes to local government financial reporting requirements that may impact on Renfrewshire Council's annual accounts.</p> <p>IFRS 9 has been adopted, which may impact the accounting treatment for the Council's financial assets.</p> <p>Additionally, the Code now states that transactions between different Council services are not allowed within the Comprehensive Income and Expenditure Statement.</p> <p>Management will need to assess the impact of the above on Renfrewshire Council and make any required changes.</p> | <p>Review of management's assessment of the impact of changes to the Code on Renfrewshire Council.</p> <p>Focussed testing on areas where changes have been processed.</p>                                                         | <p>We reviewed the unaudited accounts to confirm whether the expected changes had been made.</p> <p>We reviewed working papers and sampled entries to obtain assurance that changes had been processed accurately in line with the updated Code.</p> <p><b>Conclusion: The required removal of internal recharges had not been processed correctly in 2018/19 and had not been applied to the comparative 2017/18 figures as required by the Code. Management processed the required adjustments to correct for this in the audited accounts.</b></p> |
| <p><b>7 Capacity of finance function</b></p> <p>A risk around the capacity of the finance function was raised in our 2017/18 audit plan and we noted in our 2017/18 report that the submission for the Whole of Government Accounts was not received prior to the required deadline.</p> <p>As there have not been significant changes to staffing, and ongoing pressures exist in 2018/19 there remains a risk of issues arising in the preparation and audit of the financial statements.</p>                                                                                                                                    | <p>Regular meetings with management</p> <p>Focussed audit testing on areas where prior year errors were noted.</p>                                                                                                                 | <p><b>Conclusion: As detailed in risk 4 (new accounting system), pressures on staff due to the system change likely contributed to errors in the unaudited accounts.</b></p>                                                                                                                                                                                                                                                                                                                                                                          |

| Audit risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Assurance procedure                                                                                                                                                                                                                                                                                                       | Results and conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>8 Financial sustainability</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <p>Renfrewshire Council projected a net drawdown of reserves of £1.132 million in 2018/19. This requires £10.298 million of savings during the year.</p> <p>Financial pressures are expected to continue in the medium term with the Council estimating an annual savings requirement of £15.000 million in 2019/20.</p> <p>Meeting these savings targets is expected to require changes to the way the Council delivers services, and there is a risk that this will affect the quality of the services provided.</p> | <p>Review of budget monitoring reports during the year and comments on the financial positions with the annual audit report</p> <p>Attendance at board meetings</p> <p>Monitor of performance against savings plans</p> <p>Monitoring service delivery KPIs</p> <p>Assessment of savings plan for 2019/20 and beyond.</p> | <p>Senior management review savings via the <i>Better Council Change Programme</i>. This is formed of a number of workstreams and progress is monitored for each service areas by relevant policy boards.</p> <p>In June 2019, a paper was taken to the Leadership Board discussing more transformational change within the Council from 2020/21 onwards.</p> <p>Service level revenue budget monitoring reports are taken to relevant Council policy boards and a Council overview budget monitoring report is taken to the Finance, Resources and Customer Services Policy Board. In the 2017/18 annual audit report, we noted that there was scope to improve the transparency of the monitoring reports by reporting changes to budgets. We noted that in 2018/19, the narrative sections of the reports disclose budget changes more clearly but there is still scope to improve the quality and transparency of the reports by including prior period annual budget information.</p> <p><b>Conclusion: Successful delivery of the planned Transformational Change Programme is fundamental to the Council's ability to safeguard its ongoing financial sustainability.</b></p> <p><b>Further audit work: We will continue to assess the Councils arrangements for implementing the new Transformational Change Programme over the coming years. This work will feature as one element of the wider Financial Sustainability risk in our Annual Audit Plan for 2019/20.</b></p> |

# Appendix 3

## Summary of national performance reports 2018/19

|  <b>2018/19 Reports</b> |                                                                                     |                                                               |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Local government in Scotland: Challenges and performance 2018                                            |    | Apr                                                           |
| Councils' use of arm's-length organisations                                                              |    | May                                                           |
| Scotland's colleges 2018                                                                                 |    | Jun                                                           |
|                                                                                                          |                                                                                     | Jul                                                           |
| Forth Replacement Crossing                                                                               |   | Aug                                                           |
| Children and young people's mental health                                                                |  | Sept                                                          |
| NHS in Scotland 2018                                                                                     |  | Oct                                                           |
| Health and social care integration: update on progress                                                   |  | Nov                                                           |
|                                                                                                          |                                                                                     | Dec                                                           |
|                                                                                                          |                                                                                     | Jan                                                           |
|                                                                                                          |                                                                                     | Feb                                                           |
|                                                                                                          |                                                                                     | Mar                                                           |
|                                                                                                          |  | Local government in Scotland: Challenges and performance 2019 |

### Local government relevant reports

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

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

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

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

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

# Renfrewshire Council

## 2018/19 Annual Audit Report

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