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Inverclyde Council

Annual Report to Members and the Controller of Audit for the financial year ended 31 March 2015

16 September 2015

Key messages

ISA 260 requirements

We intend to provide an unqualified opinion on the financial statements of the Council.

The draft financial statements and supporting working papers were of a good standard and all adjustments were corrected (see appendix B).

We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. Sufficient audit comfort was gained over these risks.

Materiality was set at £5.27m for the single entity and the group. We appropriately adopted a lower materiality to evaluate the Common Good Fund.

The accounts presentation and disclosure is in line with the Local Authority Code of Audit Practice, and other relevant guidance.

We have not identified any fundamental weakness in the Council's systems of internal control, based on the external audit work we have undertaken relevant to the financial statements.

Financial management

The council's financial performance was ahead of their revised budget and the financial position was reported consistently throughout the financial year through the Policy and Resources Committee.

Key movements in the accounts are due to: increased Education Services expenditure (£17.8m), a loss on sale of non-current assets (£6.4m), and an increase in the annual measurement of pension obligations (£5m).

Pension liabilities continue to be increasing and are accounted for in line with the actuarial report dated 31 March 2015.

In 20145/15 the Council spent £25m on its capital programme, compared to budget of £29m. Reasons for the slippage include relationships with third parties and internal slippage. The Council has made significant progress in the reporting of slippage in a timely manner and has been successful in accelerating a number of capital projects.

The finance team are competent, experienced and well organised when producing the annual financial statements and supporting working papers. The finance team have been continuously engaged with the audit process throughout the year and delivered the accounts to the auditors on the 17 June alongside the public inspection period timetable.

Financial sustainability

The Council has revised its Financial Strategy first adopted in 2008. The Financial Strategy aligns the budgeting and financial decision making process with the Single Outcome Agreement and Corporate Statement. A reserves strategy is in place, with the Council's target free reserves set at 2.0% of Council expenditure. For 2014/15 the position was £5m, £1m ahead of target.

The Council's Financial Strategy is effective and identifies key assumptions within the Council's financial horizon. The Financial Strategy could be improved through use of scenario planning and sensitivity analysis on key assumptions. In June the Council estimated a financial gap of £23.8m in 2019/20. The Council provide members annually with a number of savings options to choose from to balance the budget as part of the annual budget setting process.

The Council intends to continue to focus on transformation, improved effectiveness and efficiency and alternative ways of working. Savings can either be used to ensure a breakeven financial position, or re-invested within the Council in accordance with Council priorities.

Governance and transparency

Governance arrangements continue to be strong and are fairly reflected in the Annual Governance Statement (AGS). Risk management arrangements have continued to develop with a review of all risk registers during the year.

The Council carried out a successful budget consultation process as part of the 2015/17 budget setting process and plan to build on this for 2016/18.

The Inverclyde Alliance has a good governance framework in place with clear reporting structures.

The Alliance are open to improvement and have carried out self assessments in previous years and regularly report on performance and actions against improvement plans. Following consideration of the most recent Audit Scotland report on Community Planning, the Alliance identified additional improvement actions that have been incorporated into the Improvement Plan.

We have previously reported that Inverclyde had a good framework in place for the governance of external organisations which met basic or better practices. This has been strengthened by identifying two areas of advanced practice that have been incorporated into the governance framework.

Inverclyde Council, along with seven other Councils in the Clyde Valley region, entered into the Glasgow and Clyde Valley City Deal. The deal will see investment of £27.4m across three projects in Inverclyde and investment through the Workforce Matters programme to support employability. Governance arrangements have been established with a Joint Committee, Cabinet and Chief Exec's group now in place with agreed roles and remits.

Value for money

Service performance in a national context remains mixed with 35% in the first quartile, but 25% at the bottom quartile. Areas performing well include: cost of primary school education per pupil, proportion of pupils entering positive destinations, refuse collection, satisfaction with cultural and leisure facilities, satisfaction with social care services and assisting unemployed people into work.

Performance in the bottom quartile of council's include sickness absence rates, roads maintenance and self direct supported spend. The Council have acknowledged that improvement in roads maintenance was required and developed a fully funded, long term Road Asset Management Plan. The Council have invested £10.1m through the Road Asset Management Plan since 2012. A further investment of £18.210m is planned for the three year period 2015-2018.

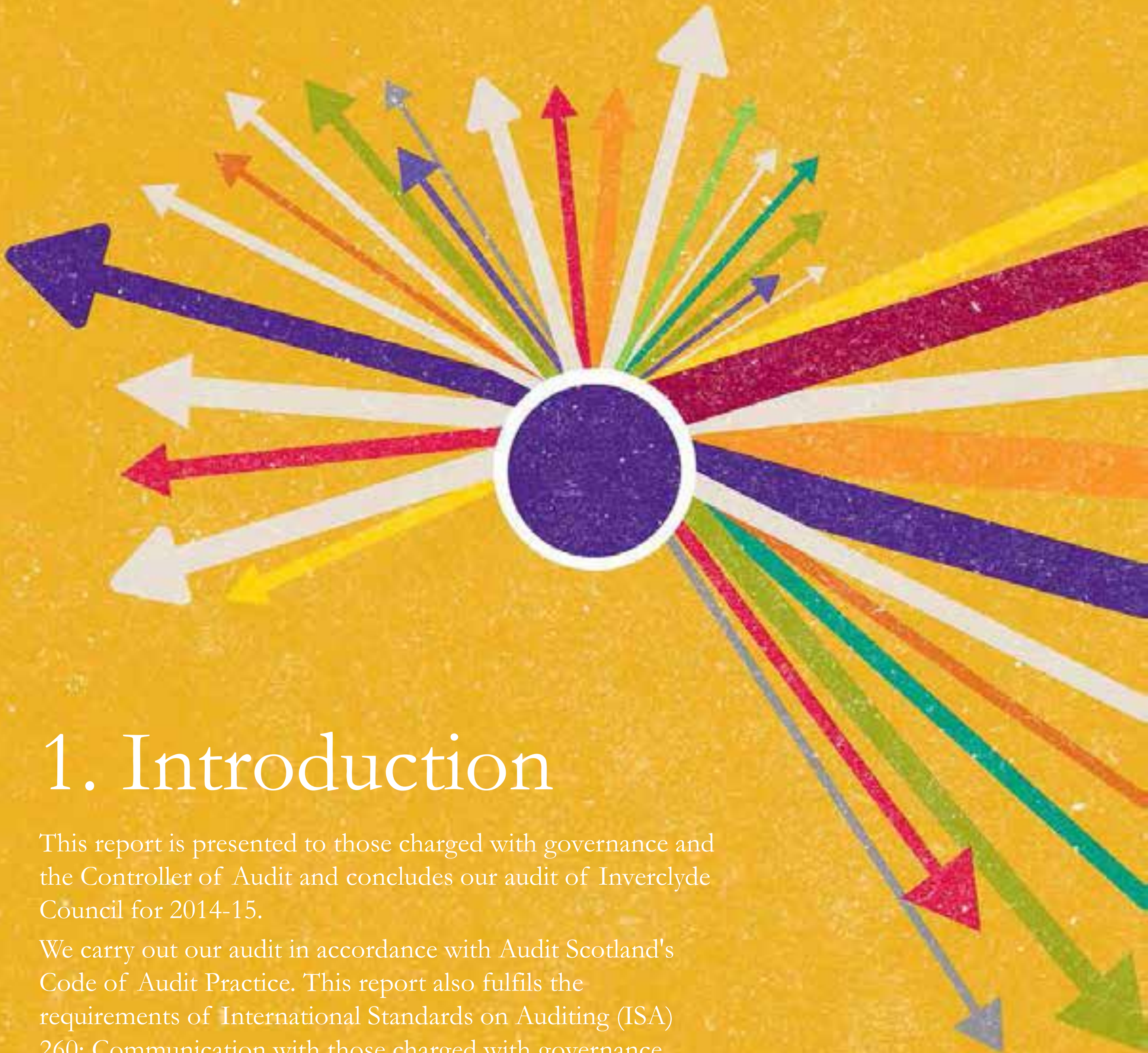
The Accounts Commission reviewed and reported on how well Councils performed against all of the 18 themes within the SPI Direction 2012. Inverclyde performed well and were fully compliant with 15 out of the 18 themes.

The Health and Social Care Partnership has a strong basis to develop the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014. The Council have identified scrutiny arrangements for the Inverclyde Joint Board, however we have recommended that the Council review these arrangements to reduce the risk of self review and conflict of interests.

Public Sector Audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011). Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015-2018.

Contents



1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Inverclyde Council for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland and the Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditor of Inverclyde Council ('the Council') for the 5 year period 2011-12 to 2015-16. This appointment is made under the Local Government (Scotland) Act 1973.

Our annual audit report is addressed to those charged with governance at the Council and the Controller of Audit.

This report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan which was presented to the Audit Committee on 24 February 2015. We did not have cause to amend that plan during the year.

The Council's responsibilities

It is the responsibility of the Council and the Accountable Officer to prepare the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the CIPFA Code).

This means the Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Council is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011 and approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are summarised overleaf.

We are required to provide an opinion on the financial statements and Annual Governance Statement. Under the Code we are also required to review and report on the governance arrangements as well as wider financial management, value for money and performance considerations.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the Council, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Chief Financial Officer and the Finance Team during the course of our work.

Our responsibilities under the Code of Audit Practice:

Financial statements

Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the Council
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

Review and report on:

- other information published within the financial statements, including the remuneration report
- the Council's financial position.

Corporate governance

Review and report on the Council's corporate governance arrangements as they relate to:

- the Council's corporate governance and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

Best value and performance

- The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.
- We are required to review and report on other aspects of the Council's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources.
- We review and report on the Council's arrangements for preparing and publishing statutory performance information.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2014-15 we have completed a second follow up of the Managing Capital Investment in Councils national report and baseline assessment of the financial capacity at the Council.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

2. ISA 260 Communication with those charged with governance

Financial statements overview

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) (ISA) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan at the meeting of the Audit Committee on 24 February 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the accounts
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- completion of our review of the group consolidation following receipt of confirmations from component auditors.

Financial statements opinion

Our audit identified a number of adjustments to the primary financial statements. These have been reflected by management in the updated version of the Accounts. Some disclosure adjustments were identified and these have been reflected in the final financial statements. We have no unadjusted differences to report. Please see appendix B for a summary of adjustments reflected in the final statements and a summary of significant disclosure amendments.

We propose to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2015 (Appendix G).

Whole of Government Accounts

The Council submitted a Whole of Government Accounts pack for the financial year ended 31 March 2015.

Inverclyde Council for 2014/15 remains below the testing threshold and therefore full audit assurance is not required. However, in accordance with guidance we are required to complete certain parts of the assurance statement to be submitted to Audit Scotland. No issues were required to be reported.

Our review of the financial statements

The draft financial statements were of good quality and we identified no significant errors or misstatements individually above our materiality threshold. We identified a number of adjustments to the Council's capital accounting which management have amended. Please see a summary of adjustments at appendix B.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review the narrative elements of the financial statements for compliance with required CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the Council. Our review of the Management commentary found that the Council could consider enhancing their disclosure around non-financial performance against the council's objectives. Refer to recommendation 2.

The Local Authority Accounts (Scotland) Regulations 2014 are applicable from 2014-15 and introduced a requirement for a Management Commentary to be included in the financial statements. The Scottish Government produced supplementary guidance on the content of the Management Commentary in May 2015 and the Council has updated their commentary to reflect the guidance issued.

We have reviewed the narrative within the financial statements against the requirements of the CIPFA Code which resulted in some disclosure adjustments, which are reflected in the final financial statements.

Grants certification

The Council complete grant claims which require annual audit certification. One claim has been certified to date:

- Education Maintenance Allowance

  No issues arose and the certificate was submitted by the deadline of 31 July 2015.

Work is on-going for the audit of the Criminal Justice Social Work Grant Claim and Housing Benefit Grant Claim. Work is anticipated to be complete in September 2015 and October 2015 respectively. The Non-Domestic Rates Return audit will be undertaken in November 2015. We anticipate we will provide our certificates of assurance in advance of the respective deadlines.

Audit findings against significant and reasonably possible risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan.
There are two presumed significant risks which are applicable to all audits under auditing standards. However, as set out in our plan and below we rebutted the risk around revenue recognition.

	Significant Risks identified in our audit plan	Work completed	Assurance gained
1	Management override of controls Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Review of accounting estimates, judgements and decisions made by management. Testing of journal entries. Review of unusual and/or significant transactions.	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable The most significant area of revenues was grant funding totalling £220m (80% of incoming resources). We have substantively agreed grant funding to award letters and other supporting evidence. In addition we have conducted judgemental sampling of fees, charges and other income.	Our work confirmed that revenue had been recognised appropriately in the financial statements.

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Set out below is our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Employee remuneration	Employee remuneration accruals understated Employee costs accounted for 37% of total expenditure in 2014-15. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements.	We gained assurance over the risk through: • review and walkthrough of the processes and controls in operation for payment of staff • substantive testing of employee remuneration accruals at the year end • judgemental sample testing of 25 staff members to payslip, contract or termination notice and recalculation of employer costs. • analytical review of employee remuneration expenses in comparison to expectations and investigation of any significant variances • review of the relevant disclosures relating to staff costs within the financial statements	We gained sufficient assurance over employee remuneration processes to conclude that there are no material misstatements. An annual reconciliation between the payroll system reports and the general ledger is not performed at the Council. However, given the level of integration between the systems, and the monthly control account reconciliations performed, we are satisfied that the ledger and accounts are complete for all payroll transactions.

"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work".

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Operating expenses	Creditors understated or not recorded in the correct period Inverclyde Council is responsible for the delivery of a range of services to the local area. In 2014-15 the cost of delivering these services was £263.4m.	We gained assurance over the risk through: • review and walkthrough of the processes and controls in operation over purchase ordering, procurement and general payment and recording of expenditure • reconciliation of the creditors system to the general ledger and financial statements • judgemental sample of year end payables and subsequent review of non trivial items • judgemental sample of 20 post year end transactions to test for unrecorded liabilities. We further extended this sample by an additional 20 items and testing of non-trivial items. This testing was completed from transactions within April 2015, in order to identify items of 2014-15 expenditure recorded in an incorrect period.	**Unrecorded liabilities:** • Our initial sample covered 20 post year end transactions, randomly selected. We encountered 2 errors within this population, totalling £43.54. • Following the identification of errors, we extended our random sample by a further 20 items, subsequently encountering 2 additional errors, totalling £31.56. • The existence of errors within our samples above means we were unable to gain assurance by sampling alone that post year end items of expenditure, relating to 2014-15 services were being captured within the accounts. • We therefore tested all items of post year end expenditure above our trivial threshold. This included 2 items, with a total value of £1.181m, no additional errors were noted. • Given the extent of our testing, we are satisfied no non-trivial errors exist to report to you. **Creditors:** • We judgementally sampled year end payables to confirm their existence. We noted 2 errors, totalling £6,574.55. Upon extrapolation of the errors over the entire population of creditors, we are satisfied with the level of assurance gained. • However, we undertook a similar procedure to our unrecorded liabilities testing, whereby we tested all creditor balances in excess of our trivial amount (£250k). We tested a further 11 items totalling £13.462m. No errors were noted and we are satisfied the population is free from material error.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Welfare expenditure	Welfare benefit expenditure improperly computed The Council received £35.5m in housing benefit grant income. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits area awarded and recorded correctly.	We gained assurance over the risk through: • review and walkthrough of the processes and controls in place to calculate pay and record benefit expenditure • analytical review of the benefit expenditure in comparison to auditor expectations • judgemental sampling of 10 rent rebates and 10 rent allowance transactions • reperformance of the reconciliation between the housing benefit system and general ledger	• We gained sufficient assurance that welfare expenditure is correctly calculated and there are no material misstatements.

Accounting estimates and significant judgements

Accounting area	Summary of policy	Commentary	Our assessment
Revenue recognition	**Grants receivable:** Government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments. **Sale of goods:** Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits will flow to the Council. **Provision of Services:** Recognised when the Council can measure reliably the percentage of the completion of the transaction. **Council Tax:** Accounted for as the accrued income for the year, less reliefs and remissions. **Non-Domestic Rates:** Accounted for as the accrued income for the year, less reliefs and remissions.	The revenue recognition policies are appropriate under the CIPFA Code. The disclosure in the draft accounts was found to be reasonable and in line with prior years. Following a national review by Grant Thornton it was suggested that the Council disclose their adopted policies in relation to Non-Domestic Rates and Council Tax. This was communicated in March 2014 and incorporated into the first draft of the accounts by management. The disclosed policies appropriately cover both material revenue streams and the Council's treatment of income.	●
Property, plant and equipment	The Council disclose their policy in respect of PPE recognition, measurement (including revaluation), impairment, disposals and depreciation. In particular, the measurement policy notes the Council's policy upon revaluation. A five-yearly interval revaluation is completed. The last revaluation took place for the accounts year ended 31 March 2013. In addition to the policy, the council has completed a number of revaluations during the year on specific assets. In our view this programme does not fully meet the Code's requirement to value items within a class of property, plant and equipment simultaneously.	The Code requires that upon revaluation, all assets within the category are re-valued. The Council's decision to revalue specific assets outside the 5 year policy is therefore inconsistent with the code. However, we are satisfied with the election to revalue specific assets in 2014-15, because the revaluation movements are significant. An annual impairment review is undertaken by the Council's qualified valuer. We identified that the capital expenditure relating to a school premises under refurbishment and extension had been over impaired. The council applied their accounting policy as disclosed, however exercised judgement in impairing all program costs incurred to 31 March 2015. This was challenged by the auditor and an audit adjustment reflected in the updated accounts. Please see appendix B.	●

Accounting area	Summary of policy	Commentary	Our assessment
Financial Liabilities	Financial liabilities are recognised on the Balance Sheet when the Council becomes contractually obliged by the financial instrument and the liabilities are measured at fair value and then carried at their amortised cost. This is normally the principal amount repayable and accrued interest to the Balance Sheet date. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.	The council adequately disclose their annual interest cost under Schools Public Private Partnerships within note 8 of the accounts. Additional disclosure is also made regarding the amounts payable to PPP operators in respect of the provision of educational facilities. This amount is material and not separately disclosed on the face of the CIES and is therefore disclosed within note 5, "Material items of income and expenditure". Adequate disclosure of the Council's PPP liabilities is made within the Finance Lease & Financial Instruments supporting notes.	●
Provisions	The Council recognises provisions where an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement by transfer of economic benefits or service potential. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation.	We are satisfied the policy is appropriate under the CIPFA Code. The draft accounts included provisions for five items: – equal pay provision (£0.67m) – insurance provision (£0.38m) – Gourock Waterfront development dispute (£0.05m) – debtor provisions (£14.20m for Council Tax and £4.55m against trade receivables) We have reviewed the reasonableness of managements judgements in line with our knowledge of the Council. We have conducted a review of the debtors provision including re-performance of calculations and review of assumptions with no issues to note. We are satisfied the provisions have been disclosed appropriately. From our review of capital accounting we noted the requirement for two new provisions within the accounts: one to account for the removal of contamination from a council site and another to account for future committed demolition costs. The adjustments are noted within appendix B.	●

Accounting area	Summary of policy	Commentary	Our assessment
Events after the Balance Sheet date	The council recognises both favourable and unfavourable events that occur between the end of the reporting period and the date upon which the Statement of Accounts is authorised for issue. An adjustment is made to the financial statements where there is evidence that the event relates to a condition which existed at the balance sheet date.	Following discussion with the auditor, management have incorporated a subsequent event disclosure within their revised accounts. Following the year end date the Council uncovered asbestos which was previously not expected within an unused site. An audit adjustment was proposed to incorporate a provision for the removal of the asbestos and disclosures have been updated with the particulars of the adjustment and event. The adjustment is included within appendix B. An additional contingent liability has also been included to reflect additional contamination, as yet unquantifiable. This is reflected in appendix C.	●
Pension fund valuations and liabilities	In accordance with International Accounting Standards the Council is required to account for retirement benefits and reflect the movement in pension liabilities through the Comprehensive Income and Expenditure Statement. Service expenditure includes pension costs based on employers' pension contributions payable and payments to pensioners in the year. This involves recognition in the Balance Sheet of Inverclyde Council's share of the net pension asset or liability together with a pension reserve. Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the Council with expert advice about the assumptions to be applied.	We have reviewed the accounting policies and confirmed they are in line with the guidance in the CIPFA Code and IAS 19. We have reviewed the qualification of Hymans Robertson who have been used as management's expert in year. We have relied on an auditors expert, PWC, to provide assurance over the reasonableness of assumptions and judgements applied by the Council. We are satisfied pensions have been disclosed appropriately.	●
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Disclosures were in line with the CIPFA Code and considered reasonable following some minor amendments. This includes consideration of a new policy around agency relationships and adoption of a policy for the treatment of associates within the single entity accounts i.e. that the policy of the Council is to prepare separate group financial statements.	●

Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Group audit summary

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We are awaiting a response from a number of component auditors to conclude upon our work on the group financial statements. We have highlighted the entities below where we are awaiting final audit opinions.

Component	Risk identified	Response under ISA 600 and work completed	Assurance
Inverclyde Leisure	ISA presumed significant risk: management over-ride of control. ISA presumed significant risk: the revenue cycle includes fraudulent transactions.	A full scope audit was performed by Welsh Walker accountants. We issued group instructions outlining our key risks and planned materiality levels. We have agreed the figures in the unaudited financial statements for Inverclyde Leisure to the group working papers provided by the Council and agreed the treatment to the Code.	We have received a response from Welsh Walker. The figures in the accounts have been agreed to the financial statements of the component. No issues have been noted from component auditors.
Riverside Inverclyde	As above.	As above with the audit performed by Scott-Moncrieff.	We have been informed by the auditor that the accounts will not be signed before 30 September 2015. Riverside Inverclyde has advised that the valuation of land and buildings is being reviewed. We are satisfied that any adjustment would not result in a material misstatement to the Group accounts.
Renfrewshire Valuation Joint Board	As above.	As above with the audit performed by Audit Scotland.	No adjustments have been proposed by the auditor to the draft financial statements.
Strathclyde Partnership for Transport	As above.	As above with the audit performed by KPMG UK LLP.	We are awaiting the component auditor's opinion on the financial statements.
Strathclyde Concessionary Travel Scheme Joint Board	As above.	As above with the audit performed by KPMG UK LLP.	We are awaiting the component auditor's opinion on the financial statements.
Inverclyde Common Good Fund	As above.	We complete a separate review of the Common Good Fund on account it is separately disclosed within the overall Accounts document. We adopt a separate level of materiality and complete testing of all balances which are deemed significant.	We are satisfied with the Council's accounting for Common Good. One error was identified by the Council during the audit which has been adjusted (see appendix B). We have noted a typographical error within the related parties note for transactions occurring between the Council as a single entity and the Common Good Fund. This has been updated by the Council in a revised draft of the Related Parties note included within the updated version of the accounts (see appendix C).
Subsidiary Charities and Trusts	Separate audit findings reports covering the requirements of ISA 260 have been issued to the Council in respect of two Section 106 charity audits performed by Grant Thornton UK LLP. Other Charity and Trust disclosures have been agreed to accounting records.		

Other areas of audit focus

Internal controls

We update our understanding of the Council's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted walkthrough testing on the following areas:

- employee remuneration
- operating expenditure
- welfare expenditure

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above.

Going concern

The Council has prepared their accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of budgets and the assumptions included within the Financial Strategy which underpin the forecasted figures.

Overall we can conclude that it is appropriate for the Council to prepare the financial statements on a going concern basis.

Future accounting considerations

Looking forward, there are key accounting changes for 2015/16 that the Council should be aware of that will impact on next years financial statements:

IFRS 13: Fair value measurement

The 2015-16 CIPFA Code has been updated to reflect the adoption of IFRS 13. The changes to measurement requirements in relation to Property, Plant and Equipment relate solely to Surplus Assets.

Authorities will be required to use valuation techniques with one or more of the three main approaches to measuring fair value:

- the market approach uses prices and other relevant information generated by market transactions involving comparable assets or liabilities
- the cost approach reflects the amount that would be required to replace the service capacity of the asset
- the income approach converts future cash flows, income or expenditure to a single current amount. The fair value measurement reflects current market expectations about those future amounts.

Currently the Council hold surplus assets on the balance sheet, valued at £3.25m.

Infrastructure assets

The Council has a range of transport infrastructure assets including carriageways, footways, cycle tracks, structures, street furniture, street lighting, traffic management systems and land.

The 2016-17 CIPFA Code changes the valuation base from historical cost to a depreciated replacement cost (DRC) basis. DRC is a method of valuation that provides the current cost of replacing an asset with it's modern equivalent asset less deductions for deterioration or obsolescence.

This change will have a significant impact on the balance sheet of the Council and requires retrospective restatement. In order to ensure successful delivery for 2016-17 preparatory work will be required in 2015-16. The finance team have already started to consider the implications of this change in the Council's financial statements and we will continue to support the team in this transition.

3. Financial management

Financial management

Financial performance

The Council approved the 2014-16 general reserve budget along with indicative budgets for the financial year 2015-16 in February 2014. The Budget Strategy confirmed the Council's intention not to allow the General Fund Reserve balance to fall below £3.8m. This has since been revised to £4m in line with the Council's approach to setting an acceptable level of free reserves (2% turnover). At 31 March 2015, the Council's free reserves position stood at £4.987m. The approved initial budget assumed expenditure of £178m, which was revised to £169m on account of reserves allocated to meet increased loan charges. The projected underspend was £3.7m, with a final out-turn of £4.4m reported in August 2015.

Areas of underspend

Underspend for the year totals £5.9m, shown across committees in Chart 1. The Policy and Resources Committee is the largest driver of underspend, with the majority of variance relating to unused inflation contingencies (£1.6m) and turnover savings (£0.3m). Turnover savings of £0.9m were also realised in Health & Social Care and £0.2m in Education & Communities. Delay in implementation of the Children & Young Persons Act contributed £0.4m underspend.

Areas of Overspend

Overspend for the year 2014/15 totals £1.5m see chart 2 with the primary contributor being an overspend of £0.7m on homecare, residential and nursing care. A shortfall in income from reduced usage of homelessness services contributed a £0.3m variance. Unbudgeted spending of £0.1m on agency worker costs within Environment & Regeneration, combined with an under-recovery of planning income (£0.1m) comprise the majority of change within that directorate.

Net Position & Accuracy of Budgeting

The Council's net underspend of £4.395m shown in chart 3 across committees results in an increase in percentage variance to budget than has been experienced in previous years. The budget variance calculated is 2.61%, compared with 0.81% in 2013/14 and 1.6% in 2012/13. The council have acknowledged the level of variance in addressing their subsequent budgets to 2015/17. Excluding the effect of the Children & Young Persons Act variance (£0.4m), not included in initial budget projections and the reduced requirement for inflationary uplifts (£1.6m), the councils variance would be considered reasonable at 0.55%.

The assumption of stubborn inflation rates in excess of 2% was made in June 2013 as part of the Finance Strategy. The variance to budget in 2014/15 for lower than anticipated inflationary pressures (£1.579m) is sizeably more than previous budgets when inflation rested above 2%. This is on account of historically low inflation, with low levels below the Government's 2% target experienced for the entirety of the budget period.

From February 2015 onwards, the rate of inflation has been circa 0%. In an open letter dated 06 August 2015, the Governor of the Bank of England wrote to the Chancellor of the Exchequer explaining "CPI inflation is judged likely to rise around the turn of the year". Due to the lack of short term forecast inflationary pressure, the Council have responded accordingly by updating their budget strategy and have adjusted the forecast budget gap calculation. Initial estimates of the 2016/17 budget gap assumed non-pay inflationary pressures of £2.9m for 2016/17, which has now been revised to £1m.

We have made a recommendation that the Council should consider the use of sensitivity analysis in financial modelling. See recommendation 1

Chart 1: Underspend for the year totals £5.9m

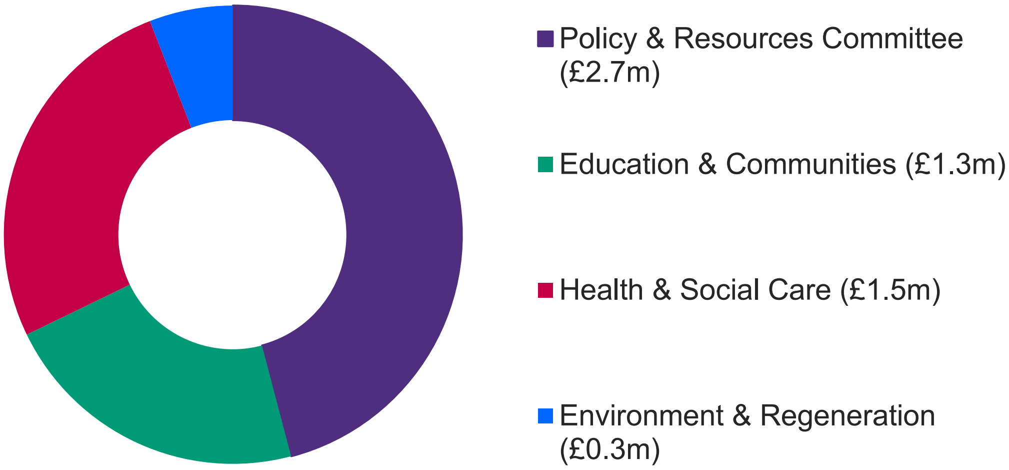


Chart 2: Overspend for the year 2014/15 totals £1.5m

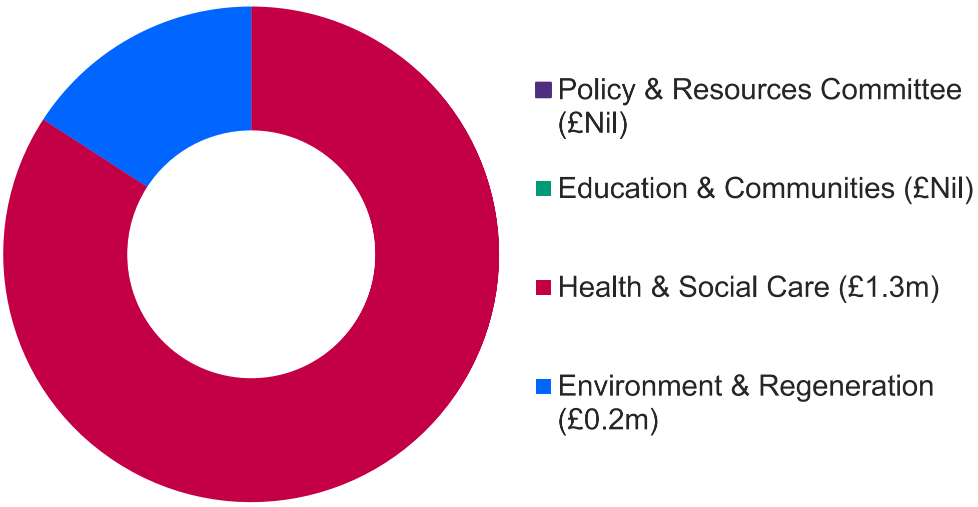
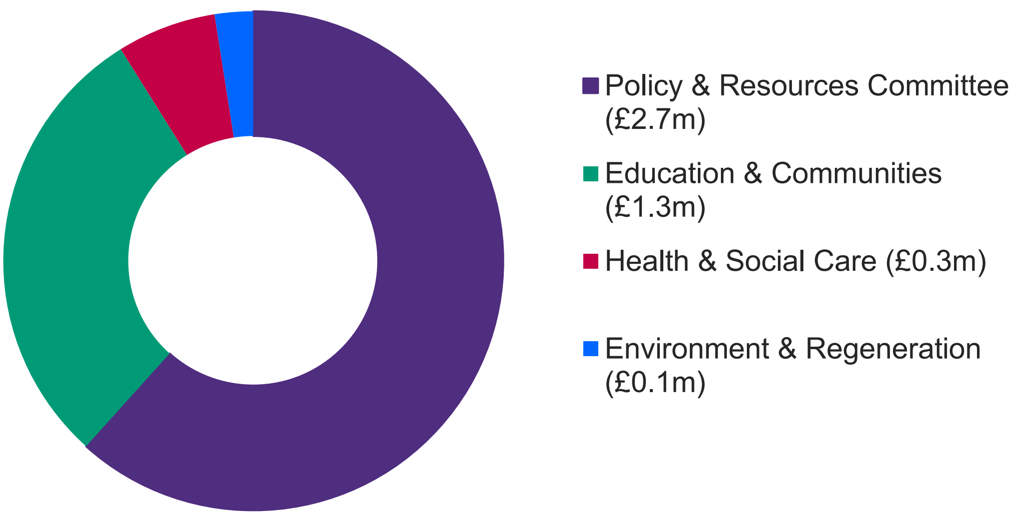


Chart 3: The Council's net underspend of £4.395m

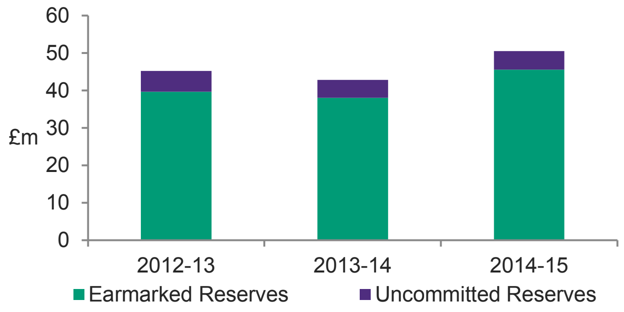


Source: Revenue Out-Turn 2014/15 – Inverclyde Council

Reserves position

In 2014-15 the Council recorded an underspend of £4.4m against the revised cost of services budget (2013-14 £1.3m).

The Council has set a target to maintain uncommitted reserves at 2.0% of the general fund budget to allow flexibility and the ability to respond to unexpected events. The 2014/15 budget therefore required a level of free reserves at £3.8m. This has since been updated to £4m. Reserves as at March 2015 were £5m.



Source: Inverclyde Council Statement of Accounts 2012-13, 2013-14 and 2014-15

The Council reported a General Fund balance of £45.6m at 31 March 2015 (31 March 2014: £42.9m).

The earmarked element of the General Fund has also increased in year to £40.6m (2013-14: £38.1m). The reserves have been earmarked for specific purposes including:

- Equal pay (£4.668m)
- Capital funded from current revenue (£3.623m)
- Early retirement/voluntary severance reserve (£3.562m)
- School Estates Management Plan (£2.942m)
- Roads Asset Management Plan (£2.165m)
- Temporary use of reserves 2016-17 (£3.298m)
- Greenock Arts Guild
- Contribution to Riverside Inverclyde (£1.858m)
- Asset Management Plan (£1,578m)
- Welfare reform (£1.007m)
- Loans charges post 16/17 (£1.200m)

Comprehensive income and expenditure statement

There were some significant movements in the Comprehensive Income and Expenditure Statement during the year, principally as a result of changes in the pensions liabilities and significant audit adjustments which were recorded in 2013-14.

	2015 £'000	2014 £'000
Net cost of services	191,589	172,891
Other operating expenditure/(income	6,811	(332)
Financing and investment income and expenditure	20,349	19,478
Taxation and non-specific grant income	(204,441)	(200,755)
(Surplus)/deficit on the provision of services	14,308	(8,718)
(surplus)/deficit from the revaluation of non-current assets charged to the revaluation reserve	199	(11,093)
Impairment losses on the non-current assets charged to the revaluation reserve	1,470	3,261
Remeasurement of the net defined benefit liability	17,488	12,422
Total Comprehensive (income) and expenditure	33,465	(4,128)

Source: Inverclyde Council Statement of Accounts 2014-15

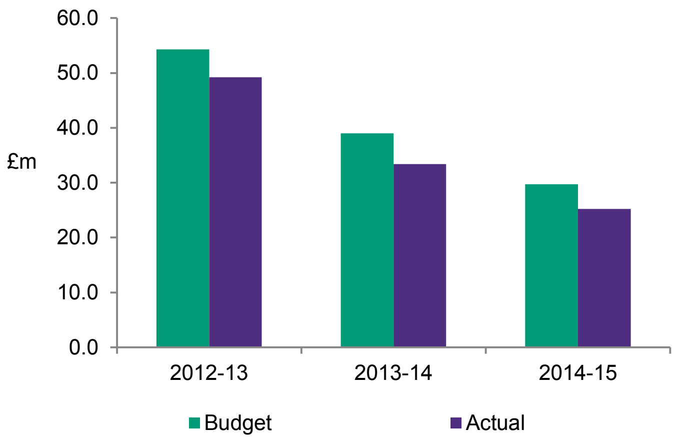
The Council's Total Comprehensive Expenditure has increased by £37.593m. The most significant areas of movement relate to the disposal of assets at an accounting loss (£6.4m), an increase in Education Services expenditure (£17.8m), a reduction in surplus recognised on revaluation of non-current assets (£11.3m). The revaluation exercise in 2014/15 did not impact significantly upon the CIES.

The Council disposed of assets with a carrying value of £8.7m for proceeds of £2.3m. This resulted in an accounting loss on disposal, charged to the accounts of £6.4m. The most significant disposal was the site and buildings of the previous St Stephen's School, which realised an accounting loss of £7.2m. The loss on sale is attributable to the Council carrying the asset at existing use valuation, as opposed the market value of the land alone, in line with accounting standards.

Education Services expenditure has varied on the prior year level on account of an audit adjustment of £8.7m in 2013/14 relating to revaluations. The CIES was credited with this amount in respect of impairments which did not require to be expensed. In the current year £5.1m of the Council's impairment charge was attributable to Schools, most notably Ardgowan Primary, which undertook significant refurbishment to restore its operating potential. Finally an increase in depreciation of £2m contributed to the charge – due primarily to a full year's depreciation charge on the new Port Glasgow Joint Campus which was brought into use during 2013/14.

Capital programme

Inverclyde Council has experienced slippage in the plan for a number of years. In 2014-15, the Council incurred capital spend of £25.6m. Slippage in the programme meant that £4.1m was carried forward to subsequent periods. This represents a slippage rate of 14%.



Source: Inverclyde Council Capital Programme Performance 2014/15 including prior year comparatives

We have raised the issue of capital slippage with management in previous years. The effects of depopulation on the future of the Council make regeneration a key area of focus.

In 2013/14 the Corporate Management Team agreed four priorities to tackle slippage in the programme including: early notification of slippage, 2014/15 performance targets, identification of possible acceleration and anticipation of delays due to external factors.

The Council has responded by making progress in identifying slippage early (reporting the majority of slippage in to committee in September 2014) and therefore allowing acceleration of specific projects (£3.6m was able to be advanced in 2014/15). These improvements have resulted in a slippage rate below the 6 year average of 23.3%.

The Council need to continue to focus on tackling internal slippage and delays experienced from relationships with third parties. Respectively, these causations contributed £2.9m and £2.3m of the Council's reported 2014/15 slippage of £7.7m, offset by the £3.2m of accelerated projects (net £4.5m).

Notable internal slippage can be seen within the School Estates Management Plan of £1.2m and over a mix of plans within Environment & Regeneration (£1.3m).

The majority of slippage experienced on account of third party issues relates to the Inverkip Community Facility & Library – discussions over drainage and complications regarding the land purchase have resulted in £1.1m of underspend to plan.

With capital spend budgeted to maintain a level of £29m spend in 2015/16, and subsequently to substantially increase to £46m in 2016/17, the Council need to consider the viability of plans given the project management resource available. Refer to recommendation 4.

Financial capacity

During 2014-15, Audit Scotland asked auditors to collect baseline data on finance departments and the control environment within individual bodies. As part of the audit we gathered data on:

- organisational structure and influence of the most senior finance professional
- financial strategy and sustainability
- budget monitoring and reporting
- the quality and finance capability of the operational finance function

At the Council, the Chief Financial Officer (CFO) is the most senior finance official. The CFO has responsibility for the core finance function, benefits, revenues, customer services, procurement and ICT. We consider the status of this role to allow the CFO to deliver strong financial management alongside senior finance staff at strategic levels. Senior finance staff have good representation within Council committees and are accountable to the Audit Committee.

We have reviewed the Council's Finance Strategy and Sustainability within the next section of this report.

Since our appointment in 2011/12 we consider the quality of working papers and unaudited accounts to have been good. The Council have been responsive to our requirements and constructively improved on working paper quality and relevance year-on-year.

We have no issues to report regarding the financial capacity of the Council.

Quality and financial capability of the finance team

The Council has numerous employees working in a financial capacity across the corporate accountancy function and service accountancy function.

As part of the managed budget process there has been a reduction in the number of finance staff employed across the organisation. A total of 11.46 full-time equivalent professionally qualified finance staff work within the Council.

Key finance positions are included within the Council's succession planning policy.

We are satisfied with the quality of output produced by the Council's finance function and have no issues to report regarding capability. The Council's finance function, like many other areas of the council, is operating within the constraints of a tight budget and demanding political and reporting environment.

4. Financial sustainability

Financial Sustainability

Developing Financial Sustainability

Audit Scotland's *Local Government Overview Report 2013-14*, published in March 2015, highlighted that eighteen councils in Scotland do not have long-term financial plans covering five years or more. It is important that councils have plans in place to direct and control finances and set the context for annual budgeting. Medium to long term financial plans also show whether the council's finances are sustainable over a longer period of time.

Inverclyde Council in addition to the Single Outcome Agreement has recognised the challenges facing the Council over the medium and longer term, for example: depopulation and percentage decreases in in grant funding. Such challenges are reflected in the Council's Financial Strategy, a rolling document covering a 7 year period. The Strategy, as updated in June 2015, covers the period to 2016/17 in detail and also identifies issues that will impact in the longer term, so that the Council can plan ahead. It includes expenditure forecasts and projected funding, where known for key priorities.

Audit Scotland set out ten features of long term financial planning. The table later in this section sets out our assessment of Inverclyde's Financial Strategy, and associated plans, against these good practice characteristics. Based on our review, the Financial Strategy mostly meets the key features identified by Audit Scotland, with additional focus required around scenario planning and sensitivity analysis.

2015/16 and 2016/17 Budget

The budget for 2015-16 prior to savings initiatives projects a cumulative budget gap of £2.9m. In order to reduce the funding gap going forward the Council approved a cumulative savings target of £5.446m for 2015-16 . This delivers an approved budget surplus of £2.587m.

Work is currently progressing with members approving savings from a suite of options to balance the 2016-17 budget. These include the timing of loan charges and the temporary use of reserves and additional top-slice savings amongst other well thought out proposals. If all the proposals to be considered by the Policy and Resources Committee in September 2015 are agreed, 2016/17 will have earmarked surplus of £1.05m and the 2017/18 funding gap will reduce to £2.2m after the temporary use of £2m reserves.

The Council has considered the funding gap within their budgeting to 2019/20. Cumulatively this was assessed at £23.8m in June 2015. Continued identification and delivery of savings is therefore of paramount importance to the financial sustainability of the entity. We have assessed some of the key assumptions in the Council's funding gap assessment later in this section.

In terms of forecasted service expenditure, expenditure in Education and Social Services are forecasting slight increases in spend compared with prior years reflecting increasing needs, with all other service areas having to operate at less cost than previously.

Our assessment of Inverclyde Council's Financial Plan against Audit Scotland's good practice characteristics

Element	Expected characteristic	Our assessment	Key features within the Financial Strategy
Income	An assessment of expected income, including projected changes to council tax income. It should set out options to increase income, for example policies on fees and charges.		• The Financial Strategy budget gap calculations assume no Council Tax increase/decrease in the period to 2019/20. Given the on-going discussions around Council Tax within the Scottish Government, we would consider it appropriate for the Strategy to include some sensitivity or scenario planning around this assumption. See discussion later in this report. • The Strategy does indicate that an annual increase in Council Tax would deliver a £1m contribution towards the funding gap.
Costs	A clear understanding of the council's costs, including those of individual services, borrowing costs etc. It should highlight future cost pressures and identify options for relieving these.		• Key factors within the financial model, including cost pressures such as the impact of pay awards and inflationary pressures. We have recommended the Council again adopt a sensitivity review around their inflation assumptions (see Financial Management section), however the Council have documented their understanding of future costs well.
Savings	An analysis of required savings along with evidence-based options for achieving these. This should set out details of one-off and recurring savings and the risk of these not being achieved.		• Clear outline of savings required and remaining funding gap for each year to 2019-20. • Options for savings are very well delivered by the Council who present a range of alternatives for consideration when setting the Budget Strategy. Savings in excess of requirement are presented to members to debate.
Funding gaps	Details of any funding gaps between projected income and the cost of providing services, including the reasons for these and how these will be managed.		• A cumulative funding gap has been identified of £23.8m by 2019-20. • The Plan signifies a programme of savings which have been approved to the period 2016/17. Savings beyond this date have been identified, and will be presented to members for selection of the most appropriate options when setting the Budget Strategy.
Assets, liabilities and reserves	An assessment of assets and liabilities showing how these will change over time. There should also be a reserves policy, setting out details of adequacy, why reserves are held and what they will be used for.		• The Finance Strategy includes both the reserves policy of the Council and the projected outcome for reserves within the budgeting period. The strategy is continually reviewed every 6 months. • The Finance Strategy effectively links with associated capital plans including the School Estates Management Plan and Roads Asset Management Plan.

Key:		
		In our view, the Financial Strategy meets the relevant feature of good practice Medium to Long Term Financial Planning
		The Financial Strategy partially meets the relevant good practice feature
		The Financial Strategy does not meet the relevant good practice feature

Our assessment of Inverclyde Council's Financial Plan against Audit Scotland's good practice characteristics (continued)

Element	Expected characteristic	Our assessment	Key features within the Financial Strategy
Scenario planning	Different scenarios that show the best, worst and most likely financial positions. This should set out the assumptions used, and take into account long-term economic forecasts and interest rate projections.		• As noted above, the Council should adopt a sensitivity analysis of their Financial Strategy's main assumptions – these include, amongst others, the effects of depopulation, inflation assumptions and Council Tax reform. • The Finance Strategy reflects consideration of uncertainties such as inflation and depopulation, however the Council's plan does not indicate best & worst case scenarios.
Capital invest-ment activity	Details of investment needs and plans and how these will be paid for. This should include details of estimated financing charges.		• The Plan links to the capital programme.
Demand	Analysis of demand for services, taking into account various population projections. It should also include the impact of demand on capital investment needs.		• Demographic pressures built into cost model and funding gap analysis. Inverclyde's Financial Strategy reflects the expected changes in population age demographics (e.g. an increase in the elderly and a decrease in younger population). Later in this section we have provided some additional comments regarding depopulation and shifts in local demographics which the strategy reflects.
Risks	An analysis of significant financial risks, their implications and how these might be mitigated.		• A General Pressures allocation has been established to mitigate the risk of future cost pressures. The Strategy discloses a specified Risk Register which has been developed specifically for the Finance Strategy.
Links	Clear links to the council's corporate strategy, CPP objectives and other plans.		• There are clear links to the overall strategic framework of the Council, including the Single Outcome Agreement, Corporate Statement and Corporate Directorate Improvement Plans.

Inverclyde's economy – an outlook

In order to achieve financial sustainability, the Council will need to continue to promote economic growth across the area, recognising there are specific challenges they face.

The Single Outcome Agreement, supported in part through the Financial Strategy requires the Council to focus upon 8 key areas with specific priorities pertaining to the local economy: including maintaining a sustainable, balanced population; ensuring economic regeneration with increased skillsets within the workforce, increased economic activity and an accessible labour market. Fundamentally the Council is committed to providing public services which are high in quality, continually improving, efficient, and responsive to the needs of constituents.

In overall terms Inverclyde has a small economy below the national median and is one of the smaller Local Authorities in Scotland. Therefore any economic fluctuations, no matter how small could have a substantial impact on the economy.

Labour market & Unemployment

Alongside a dynamic local enterprise culture, the strength of the local labour market is a key factor in both competitiveness and sustainability of the local economy. Higher levels of unemployment are typically associated with higher levels of demand for Council services. Unemployment in Inverclyde is approximately 20% of the population, placing the Council in the bottom 40% of Local Authorities nationally. Whilst constituting a third of the local business mix in Inverclyde, knowledge intensive sector employers accounted for only 22% of employment during the year 2013. This also reflects the lack of higher education availability within the area, given the talent pool does not reflect demand from these businesses.

A large proportion of the working age population within Inverclyde claim job seekers allowance, at 3.3% (national average of 2.2%). The Council will face significant challenges in the provision of services correlated with higher levels of unemployment and reliability on state support.

The public sector workforce in Inverclyde is considered sizeable and supports the region, with 36.8% of those employed, working within this sector. This is above the Scottish average of 30.1% and the UK as a whole 27.83%.

Local business

The current business formation rate within Inverclyde is average, ranking within the middle 20% of Local Authorities nationally. However businesses which do set up have a strong chance or survival in Inverclyde, showing the Council's commitment to local business, with a 24 month survival rate of 82% well above the UK average. The majority of businesses (70%) within Inverclyde are in non-knowledge intensive sectors (this sector is widely recognised as being a key driver of productivity). Despite being in line with the Scottish average of 30% knowledge-intensive business, this may be an area of focus for the Council in coming years, working with the Community Planning Partnership and other working groups.

Per one thousand constituents, 29 businesses operate in Inverclyde. The Central belt as a whole performs similarly. Nearby areas such as South Ayrshire, Renfrewshire, Dumfries and Galloway and Argyll and Bute each outperform the Inverclyde economy in this respect, each with over 39 business per thousand residents. Notably, with the exception of Argyll & Bute, these areas have some sort of University provision nearby or within their bounds.

Depopulation

As one of the main levers in financial sustainability for the area of Inverclyde, the Council has rightly considered the effects of depopulation both within the Single Outcome Agreement and subsequent Financial Strategies. In assessing the budget gap, the June 2015 updated Financial Strategy assumes a continual £1m decline in income each year to 2019/20 on account of depopulation alone.

In 2012, Sims Consulting were employed to prepare a Depopulation research study for the Inverclyde region. The study delivered the following key findings:

Depopulation has been more notable amongst younger people, and those of working age, than older age groups. Depopulation has been on-going in Inverclyde for 60 years and despite a slow in the decline, the population is still forecast to fall below 70,000 by 2025.The report highlights the drivers of those leaving Inverclyde as: young people, looking for work or higher education and young families looking for better career prospects and good family housing.

The above is supported by Grant Thornton's *Where Growth Happens: The High Growth Index of Places* paper discussed later in this report. The report particularly mentions the unavailability of University Education as a driver of migration and poor knowledge-based sector growth. Universities act as a stimulus in attracting and refreshing the talent pool of regions, especially where trends are towards a locally ageing working population.

The Council's longer term estimates indicate the population of Inverclyde will fall to 66,500 by 2035. This is echoed by Grant Thornton's demographic information, which would suggest a decrease in all age demographics up to the 65+ category, to the year 2037, as noted in the table below.

Age Group	Population Growth to 2037
0-14	-32%
15-24	-35%
25-44	-36%
45-64	-34%
65+	+45%
80+	+80%

Source: Grant Thornton In Focus Report: Inverclyde Council 2014/15

The way forward

The Council should continue to consider the impact of depopulation upon their budgetary process. In particular, the Council should seek to perform a sensitivity exercise, using as up to date information as possible, to forecast the impact of depopulation on a number of income streams and service delivery. This should be conducted for as long a term as is realistically possible, as ultimately, the future of the Council as a Local Authority could be affected by continued decline in population. Presently, the updated Finance Strategy employs the same depopulation assumptions as were included in the 2013 Strategy when adopted. We recommend as part of the sensitivity analysis, that the Corporate Management Team revisit these assumptions and consider whether any are now out-dated. The Council's current short term budget gap calculations do take into account the effects of depopulation to 2019/20, however by completing an exercise of sensitivity, critically evaluating publically available information and information available from other consultants, the Council could aim to estimate their longer-term best-case and worse-case scenarios. Refer to recommendation 1.

The Council may also wish to consider forming more substantial links with Scottish Universities, especially those who operate on a multi-campus model. Investment in higher education infrastructure through incentivised partnerships could deliver a university culture to the area, in turn delivering an increase in knowledge-sector business, population growth and lower migration of younger people. From a regeneration perspective, the surrounding areas of Universities tend to perform well where local businesses support the presence of students – in particular, recent research by Savills (property consultants) shows strong rental yields for student accommodation in areas outside the more traditional university city locations.

Inverclyde Council is in a unique position given its strong transport links to the City of Glasgow region – ultimately facilitating any "out-of-town" campus a university may consider. Examples of non-city campuses in the West of Scotland include Paisley, Ayr, Dumfries and Hamilton - none of which share all of the benefits of Inverclyde which SIMS reported: the wealth of natural resource and environment, superb schooling providing a "university pipeline" and regular connections to the wider city region.

Council Tax Income

The Scottish Government set up a cross party commission to "identify and examine alternatives that would deliver a fairer system of local taxation to support the funding of services delivered by local government". The remit includes examining international methods of local tax levy, including systems which are progressively based.

It is assumed that a full revaluation and review of the bands used in Council Tax collection will be the outcome – improving fairness on account the system is based upon values from the early nineties.

The COSLA Fiscal Empowerment Task Group set up to deliver the review, has assumed 6 priorities, loosely based upon Adam Smith's cannons of taxation:

- Local taxation should be fair and easy to understand
- Local taxation should be administratively efficient and difficult to avoid
- Local taxation should have regard to the stability and buoyancy of the underlying tax base
- Local taxation should be determined locally in order to establish and maintain democratic local accountability. This includes the local setting of rates
- Local government should have discretion to
- determine whether rates and reliefs are set nationally or locally.
- Local taxation should allow for local flexibility, empowering Local Authorities.

The Leader of the Council wrote to the Scottish Government on 28 June 2015 emphasising the following from the councils perspective:

- The retention of a modified Council Tax system would increase equality and reduce disruption
- The Council's in year collection rate is at a ten year high, with 94.8% of total Council Tax billed being collected by the Council
- Given the significant variation in property prices since the early nineties, any national revaluation should avoid unintended consequences which would not be fiscally neutral on a local level
- The review presents an opportunity to revise tax reliefs and discounts. The Council supports a review of the current single person discount (25%) and a reduction in discounts offered for higher level properties
- The Council believes that there is a need to re-establish the link between local democratic accountability and the ability to vary rates at a local level, without the threat of punitive sanctions on the Council.

We consider the Council's standpoint to be reasonable, given Inverclyde's good rate of in year collections (94.8%) which is in line with the Scottish Average.

An alteration in the system would likely negatively affect the rate of collections as constituents respond to change.

The mix of property and demographics within Inverclyde would also suggest that any progressive system, based upon income, would be detrimental to the Council's income. As indicated previously, 30% of Inverclyde's population is unemployed, and 19.7% collect benefits. The vast majority of Council Tax Dwellings as at 31 March 2015 reside in Band A (19,175 dwellings), the lowest value band, whilst only 3,505 reside within what would be considered the upper bands (F, G & H). These statistics support the assumption that any progressive system of local income tax, would likely add considerable pressure on Council revenues if the Scottish Government no longer used grant to equalise movements in the Council Tax base.

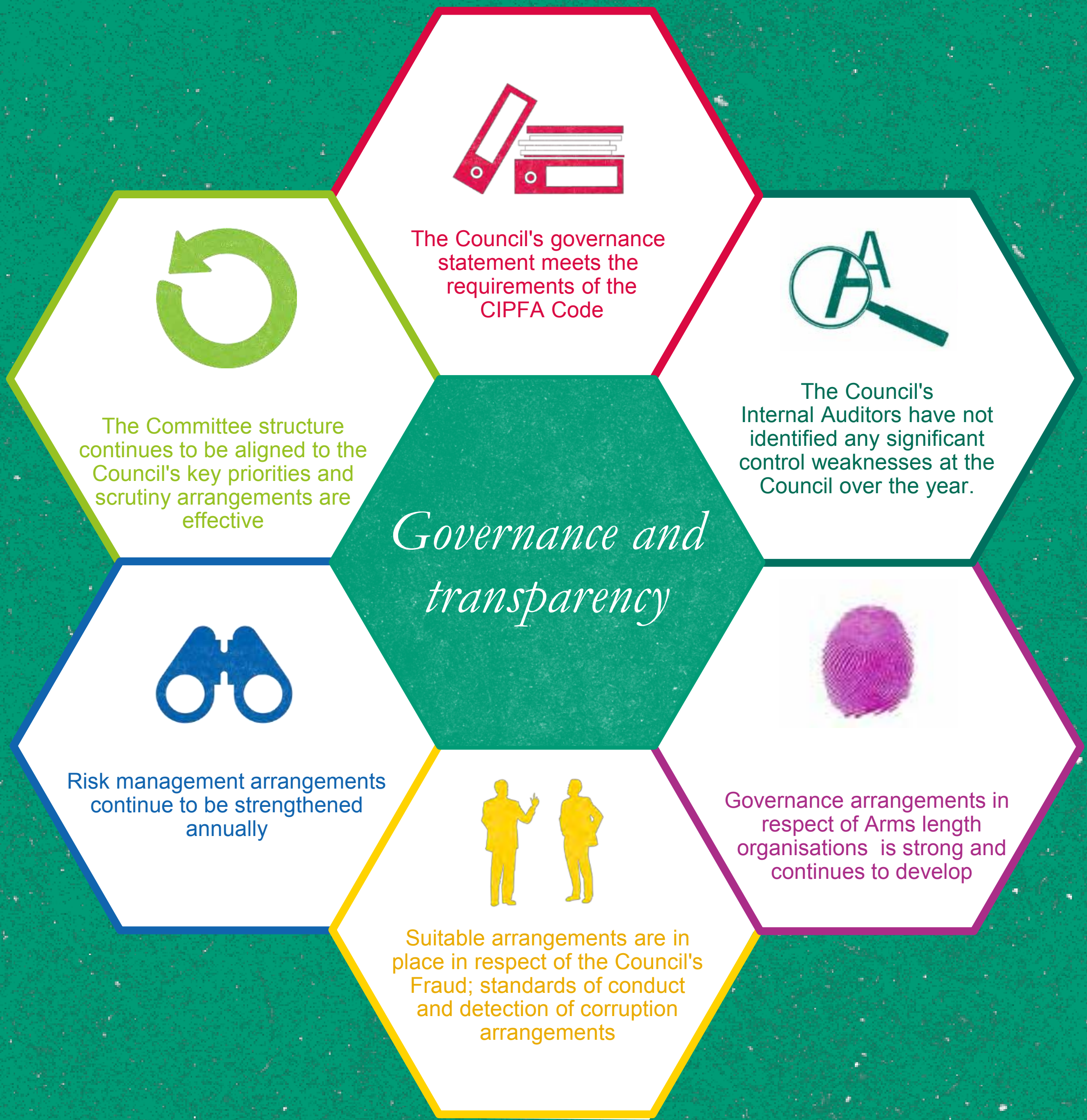
The Council's suggestion that single persons discount be reviewed is sensible, given the number of dwellings claiming this discount in 2014/15 was sizeable. 40% of dwellings within the Council area claimed the relief. Notionally, based upon 2014/15 rates, the discount reduces income by £3.66m. Should the discount be reduced by 5%, this would represent an additional £0.732m of income to the Council, based upon 2014/15 rates and claimants.

The Council has made sufficient effort during 2014/15 to improve upon their public engagement with Council finances. The budget consultation process discussed later in this report reflects the Council's commitment to engaging residents in how their resources are allocated, however, the freeze on Council Tax restricts the Council's democratic manoeuvrability. Conditions applied to the General Revenue Grant by the Scottish Government, mean that it would be detrimental for the Council to assume flexibility over Council Tax charges in the short term.

The way forward

The Council's Finance Strategy and budget gap calculations to 2019/20 reflect Council Tax income remaining static in the period. In the short term, this could be considered likely. However, following the events mentioned above and the Scottish Government's intention to refresh the local tax system, it would be prudent for the council to adopt a scenario planning approach to changes at this stage. There are a number of possible outcomes, some of which are mentioned above. It would therefore be appropriate for the Council to model a number of scenarios which would present differing impacts on revenues and collection rates. Best and worse case scenarios could be reflected (for example, the worst case under a progressive system and the best case, where bands are extended and discounts/reliefs reduced). Refer to recommendation 1.

5. Governance and transparency



Governance and transparency

Annual governance statement

The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Council's in Scotland to prepare an Annual Governance Statement (AGS) as part of their financial statements. The Council has been preparing an AGS since 2013-14 and we commended the Council for their preparedness and efforts in delivering a quality report in the previous set of accounts. The Council have maintained the standards noted in the prior year and produced a robust and fair reflection of the Governance Framework including areas of focus within the Council's internal control activities.

Guidance is set out in the CIPFA Code for the content of the AGS as it forms a key summary of the governance ethos of the Council and provides assurances around the achievement of the vision and strategic objectives of the Council.

The Council has conducted a review of effectiveness of the governance framework and the system of internal control to inform the AGS. The review of effectiveness did not highlight any issues that would impact on the level of assurance over the governance framework, however there were a number of areas for improvement identified and reflected in the statement:

- the Council reflected and drew appropriate attention to one audit review relating to Corporate Complaints Procedures which received a "requires improvement" audit opinion. A working group has now been set up address a number of organisation-wide control issues
- the AGS also summarised areas of improvement including: staff mandatory training, members development plans, staff inductions, oversight of employee conflicts of interests & gifts, records management, staff performance reviews and formal succession planning.

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as key areas for future development.

Political Balance

Following the resignation of a labour Councillor and re-appointment as an independent member during the year, the political balance on Committees, Sub-Committees, Boards and Outside Bodies (where appropriate) was reviewed in order to comply with the Council's approved Scheme of Administration.

Budget Consultation Process

During 2014/15 the Council engaged the public in a community consultation in development of the budget to 2016/17. The suite of consultations/communication channels included: Citizens Panel questionnaires, five public meetings, a dedicated feedback email address and an online budget simulator.

A number of positive feedback results were noted:

- more than 70% of respondents found the budget simulator very easy or fairly easy to us
- over two thirds of respondents felt the council had supplied sufficient information to aide them in making choices about the budget
- 93.6% of respondents agreed to be contacted in future about subsequent budget consultations.

Whilst representing only a small proportion of the population of Inverclyde, 602 people used the online simulator during the consultation. This alone reflects the Council's effort in furthering public engagement and using technology to impact upon local politics. 191 people attended one of the five public meetings held in December 2014.

An estimated cost of £10,000 was proposed and approved for continuation of the consultation process in 2015/16. We consider this a modest cost which presents good value for the level of involvement attained. Examples of positive feedback include "*Can I congratulate the Council in involving the community of Inverclyde. I particularly liked the budget simulator as it gave you an idea of the difficulties faced by those having to make decisions*". One respondent also commented "*I did not realise how hard it is*" referring to the budget and savings process.

Inverclyde Council was one of a number of Councils which adopted this approach during 2014/15. The Council's pro-active implementation of this sort of consultation should be commended. Areas of further improvement may include more effective targeting of groups – as feedback reflects poor attendance at a number of public meetings, with awareness considered to be part of the problem. The Council may wish to continue to use social media (e.g. Twitter) to promote the consultation process, but should also consider other demographics within Inverclyde – e.g. the elderly are less likely to be as connected on social media and one of the Council's most affected groups.

The way forward

Feedback gathered by the council suggested that additional information could be provided alongside the budget simulator. We have not proposed a recommendation in this regard, given we are aware the Council has processed this feedback through the committee process.

Governance of Arms' Length External Organisations

The Council have a Governance Framework in place to monitor third party organisations in which the Council have a financial interest. The framework, agreed in 2011, has developed over a number of years taking cognisance of guidance, for example the Audit Scotland report ALEO's: Are you getting it right? We reported last year that the Council are meeting either the basic or better practices with the ALEO's: Are you getting it right? toolkit.

As part of the Governance of External Organisations Annual Report presented to Policy and Resources Committee in November 2014, an action plan was agreed to develop advanced practice in a number of areas namely:

- how clear is the council about its reasons for delivering services through ALEOs?
- how well does the council understand the financial commitment and risk to which it is exposed through ALEOs.

This action plan will help strengthen the governance framework in place.

During the year, the Greenock Arts Guild, a long standing organisation that the Council has provided grant funding to, ran into financial difficulties and governance issues. A number of individuals resigned from the Board and a Board Recovery Plan was put in place.

In December 2014, the Greenock Arts Guild made a request for additional funding of £1.95m from the Council. At a special meeting in January 2015, the Council agreed a funding package of £1.2m capital grant and increase revenue support of £0.750m over 8 years.

The Council have worked closely with the Greenock Arts Guild to review the progress on governance arrangements, finances and business plan. An updated report is being presented to the Policy and Resources Committee in September 2015 recommending the release of the £1.2m capital funding plus some of the agreed revenue support.

Community Planning Partnership

The Inverclyde Alliance has a good governance framework in place with clear reporting structures. Each Outcome Delivery Group has an outcome delivery plan and provides a quarterly report to each meeting of the Programme Board and Alliance Board on the progress made against the actions set out in the plans. The latest quarterly progress report (March –May 2015) highlights that 64 out of the 65 actions are complete or on track. There is one action, relating to the production of an online Children's Services Plan which is not expected to meet target.

The Alliance are open to improvement and have carried out self assessments in previous years and regularly report on performance and actions against improvement plans.

An Inverclyde Alliance Improvement Plan was reviewed and agreed in December 2014. The Improvement Plan has been drawn together from the Quality Assurance of the SOA in 2013, the remaining actions from the Alliance Board PSIF Improvement Plan and any improvement actions identified from the Audit Scotland reports on Community Planning.

The actions within the Improvement Plan have been grouped into the following themes:

- Community engagement, empowerment and asset based approaches
- Tackling inequalities
- Joint resourcing and planning
- Leadership
- Development of the SOA

In November 2014, Audit Scotland published its most recent review of Community Planning arrangements. The report noted significant improvements since Improving Community Planning in Scotland was published in March 2013. All Community Planning Partnerships (CPPs) developed new Single Outcome Agreements (SOAs) during summer 2013, based on the Statement of Ambition published by the Scottish Government and CoSLA.

Key messages from the report were:

- partners are demonstrating more collective ownership of community planning and participation has improved
- many CPPs are still not clear about what they are expected to achieve and the added value that can be brought through working in partnership
- the way public services are delivered must change to manage financial and service demand pressures and to address the significant variations in outcomes experienced by different communities
- performance management continues to be a weakness in CPPs.

Following Inverclyde Alliance's consideration of the Audit Scotland report, two additional actions have been added to the improvement plan:

- developing further performance indicators to enable the partnership to identify how well it is delivering on its outcomes
- all outcome delivery groups to review their performance indicators to ensure that they can evidence any improvements being made by the group. Additionally, the way reports are made to the SOA Programme Board and Alliance Board could be reviewed to allow for a greater level of performance information to be made available for scrutiny.

Glasgow and Clyde Valley City Deal

In August 2014, Inverclyde Council, along with seven other Councils in the Clyde Valley region, entered into the Glasgow and Clyde Valley City Deal.

The deal will see investment of £27.4m across three major infrastructure projects in Inverclyde, Inchgreen, Ocean Terminal and Inverkip Power Station development. The financial implications of this initiative now form an appendix within the Council's Financial Strategy. In addition, the Council will participate in two other major portfolio projects namely a Skills and Employment project jointly funded by the DWP over the period to March 2018 and an Enterprise project.

Governance arrangements have been established with a Joint Committee, Cabinet and Chief Exec's group now in place with agreed roles and remits.

The Assurance Framework requires an administrative role to be fulfilled to support the Cabinet and the delivery of the City Deal. This will be delivered by Glasgow City Council as the Lead Authority through a newly constituted Programme Management Office.

Risk management

The Council have continued to strengthen their risk management arrangements during 2014-15.

All Corporate, Directorate and Service risk registers are in place and have been reviewed and refreshed during the year. The Corporate register is reported regularly to the Corporate Management Team (CMT). Progress reports and an Annual Report on risk management are reported to the Audit Committee throughout the year.

Key actions through the year have included:

- continuing the advancement of emergency planning, crisis management and business continuity
- maintaining Service Risk Registers for the Inverclyde Health and Social Care Partnership
- promoting the e-learning module on Risk Management for employees as part of the Brightwave corporate training platform
- facilitating risk registers for arms-length organisations.

Strategic risks in the register which sit above the risk appetite include:

- failure to identify, develop and deploy sufficient workforce capacity to achieve the required outcomes which may result in resources being spread too thinly
- the risk that the Council will not manager the significant funding restrictions over 2015/19 appropriately
- the risk the Council may fail to discharge its health and safety responsibilities
- the risk that the Council do not achieve their absence management strategy due to high absence rates and controls not implemented by managers.

Service risk registers are the responsibility of service managers. A Corporate Risk Management Group is in place to facilitate consistency across the services.

Internal Audit

The Council has an in-house Internal Audit function, and has confirmed compliance with Public Sector Internal Audit Standards as part of their Annual Report.

Internal Audit is led by the Chief Internal Auditor who reports to the Head of Legal and Property Services and consists of a team of four, including a corporate risk advisor.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, they issued the following opinion:

"On the basis of Internal Audit work carried out in 2014/2015, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls, it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls."

One area was assessed as requiring improvement:

- Corporate complaints

Although Internal Audit did identify a number of amber risk rated recommendations none of these were identified as critical risks to the achievement of the Council's objectives.

In 2015-16 the Internal Audit programme focuses on:

- HR operations
- Learning disability services – client money arrangements
- Corporate health and safety
- Self-directed support
- Facilities services – cleaning
- Contract management - RAMP

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2014-15.

Overall Internal Audit have completed their plan for 2014-15 as agreed with the Audit Committee and have provided detailed updates to Committee.

Prevention and detection of fraud and irregularity

The Council has a Fraud and Corruption Strategy, which is designed to promote an anti-fraud and anti-corruption culture. This is supplemented by the Council's Public Interest Disclosure (Whistleblowing) Policy. In year the Council appointed a Fraud and Audit Officer to support and further develop the Council's arrangements including an update of the current Fraud and Corruption strategy (December 2015), and this is reflected in the Annual Governance Statement as a future area of focus.

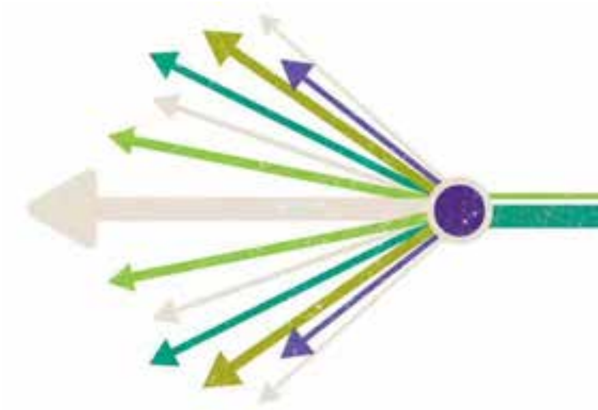
Our enquiries of management and the Council's internal audit identified one fraud during the year, relating to theft of client monies in the region of £25,000. The Council has strengthened controls in this area following the theft.

In order to gain assurance there were no material fraudulent transactions in year we conducted testing on journal entries and related party balances to identify any unusual transactions. There were no issues arising from this testing.

The Council participates in Audit Scotland's National Fraud Initiative. During 2014-15 the data matching exercise found 1,709 matches requiring review across council tax, creditors and payroll. The Council has investigated 783 (46%) of the recommended matches as at 11 September 2015 and have not identified any instances of fraud or error.

Arrangements for maintaining standards of conduct

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Ethical Standards and the specific Code of Conduct for Councillors as approved by the Scottish Government. A register of interests is available for each Councillor on the Council's website, and declarations of interest are made at each Council meeting.



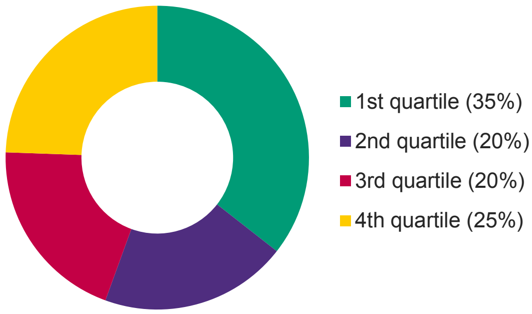
6. Value for money

Statutory performance indicators

As required by the Local Government Act 1992 Publication of Information (Standards of Performance) Direction 2013, the Council has collected and reported information on Corporate Management (SPI 1), Service Performance (SPI 2) and the Local Government Benchmark Framework (LGBF SPI 3).

The LGBF comprises a suite of performance indicators which are collected for all councils across Scotland to create a database of comparable data. The Council's performance data which was reported into the 2013-14 LGBF is available on the Council website. In 2013-14 there were 53 indicators as part of the LGBF, of which the Council report on 48 indicators. As at March 2015 information from Scottish Government was outstanding for three of the indicators in Children's services

Performance against LGBF indicators:



Source: SOLACE Improving Local Government Benchmarking Framework 2013/14 Policy and Resources Committee March 2015

This chart highlights that service performance in a national context remains mixed with 35% in the first quartile, but 25% at the bottom quartile.

Areas performing well include: cost of primary school education per pupil, proportion of pupils entering positive destinations, refuse collection, satisfaction with cultural and leisure facilities, satisfaction with social care services and assisting unemployed people into work.

Performance in the bottom quartile of council's include sickness absence rates, roads maintenance and self direct supported spend.

The Council have acknowledged that improvement in roads maintenance was required and developed a fully funded, long term Road Asset Management Plan. The Council have invested £10.1m through the Road Asset Management Plan since 2012. A further investment of £18.210m is planned for the three year period 2015-2018.

Accounts Commission Public Performance Reporting review

The Accounts Commission reported on how well Councils have met the requirements of it's SPI Direction 2012 in June 2015. The report presented to the Accounts Commission meeting outlined where Public Performance Reporting (PPR) has improved and where further improvement is required.

The Accounts Commission noted that although there was a general trend of improvement there were significant variations across the SPI 1 and SPI 2 themes.

As part of the review it was assessed how well councils met all of the 18 themes within the SPI Direction 2012. As a result of the review Councils were split into quartiles for compliance.

Inverclyde Council was in the first quartile noting full compliance with 15 out of the 18 priorities. The Accounts Commission identified assets, sustainable development and accessibility as areas for improvement. The findings in the above areas were:

- for assets and sustainable development, the indicators included are reported well but the performance information would benefit from a wider range of indicators, including cost information
- more could be done to improve the accessibility of the PPR information, eg using high-level info graphics or publishing in other forms than narrative text.

Health and Social Care Integration

Introduction

As with all regions in the UK, the Greater Glasgow and Clyde health economy is facing significant strain on its resources from an ageing population, increasing prevalence of long term conditions and declining health of individuals, at the same time as trying to maintain financial sustainability and improve quality.

NHS Scotland's 2020 Vision is for everyone to be able to live longer, healthier lives at home, or in a home setting with integrated health and social care with a focus on prevention, anticipation and supported self management.

The Public Bodies (Joint Working)(Scotland) Act 2014 was granted Royal Assent on 1 April 2014. This puts in place a framework for integrating health and social care. This has made existing Community Health and Care Partnerships (CHCPs) redundant, replacing them with Integrated Joint Boards (IJBs). The IJB will play a key role in implementing NHS Scotland's 2020 Vision.

Inverclyde has had a strong CHCP since 2010 so is well placed to meet the requirements of the Act.

Governance

A requirement of the Act was to prepare an Integration Scheme setting out the functions which will be delegated and the method of determining financial resources.

During the year, the Health and Care Sub Committee over saw implementation plans for the IJB and received updates through out the year.

The Health and Care sub committee was abolished on 1 April 2014 and the Health and Care committee will have the role of scrutinising the IJB. Membership of the Health and Care committee will be open to Council members sitting on the IJB. Although there can be advantages with knowledge and accountability with such representation on Committee the Council should consider if there is a risk that self review will diminish effective scrutiny. See further details at recommendation 5.

A 2015/16 Establishment Plan has been approved which provides a framework for developing the three year strategic plan that the IJB must have in place by 1 April 2016.

A three year strategic plan covering the period 2016-19 is being developed by Inverclyde IJB in the context of a wider Greater Glasgow and Clyde basis.

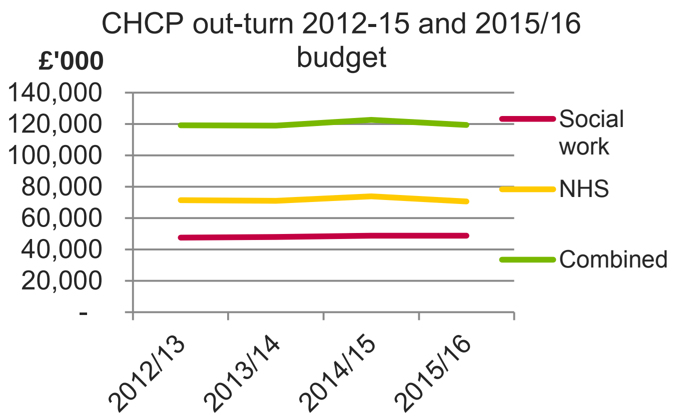
The Inverclyde IJB is one of six which NHS Greater Glasgow and Clyde is involved with. As such, a collaborative approach was taken by the local authorities to develop systems and practices which would be adopted across the six IJB's within the NHSGGC region. A technical working group consisting of the S95 officers of each council meet monthly. Three sub work streams were established:

- annual accounts, governance and financial regulations
- budgeting
- technical accounting

The technical group review the outputs of the working groups. The treatment of VAT has been identified as a key risk and national guidance is required for that and other technical accounting issues.

2015/16 Budget

Due diligence work has been carried out by the Council to consider the sufficiency of the revenue budget for 2015/16. Inverclyde Health and Social Care Partnership (HSCP), have, from October 2010, fully aligned their financial reporting. A review was carried out to compare the 2015/16 budget against the HSCP out-turn budgets from 2012-15.



The 2015/16 social work budget is in line with prior year budgets, however this represents a decrease in real terms. The NHS cash budget has reduced by 4.4% from 2014/15. The report concluded that the 2015/16 budget was sufficient.

Key to the 2020 Vision is community based services. Of the £120m 2015/16 budget, £73m (61%) is for community services.

Financial Risks for the IJB

It is acknowledged that transformational change is required for health and social care. There needs to be capacity within the management structures in place, joined up local policies and National strategies and funding available to enact change whilst also providing services under the current system in the short term. It is unclear when and where additional funding for transformational change programmes will come from. In addition there are a number of financial risks yet to be resolved for the IJB from 2016/17.

- There is no additional funding for the running costs of the IJB. The budget presented in the IJB integration scheme does not identify the running costs of the organisation.
- There is currently no budget included for large hospital services. NHSGGC are currently working on a model to allocate budget across the six IJB's.
- Currently Inverclyde HSCP carry out considerable work to monitor and reduce prescribing expenditure and have a risk share arrangement in place across the Greater Glasgow and Clyde area. However, given the nature of prescribing being volatile and demand led, it is difficult to predict and will continue to be a risk for the IJB.
- The NHS resource allocation model (RAM) does not take account of the reality of resources on the ground and it could take a number of years for the staffing structure to reflect the ideal skill mix that the RAM is based on. For areas like Inverclyde where there are fewer specialist resources and facilities, enticing newly qualified staff to the area could be a challenge and further exacerbate the gap between the RAM and actual skill mix within the NHS in Inverclyde and therefore funding available.

Appendices

Contents	Page

Appendix A: Action Plan

	Issue and Risk	Priority	Recommendation
1.	**Issue** Audit Scotland's good practice characteristics of a financial strategy include the use of scenario planning. The Financial Strategy reflects consideration of uncertainties such as inflation, changes to Council Tax and depopulation, however the Council's plan does not indicate best & worst case scenarios. **Risk** There is a risk that financial risks are not identified.	Medium	The Council has an opportunity to complement the Finance Strategy with a scenario planning exercise showing the range of outcomes which could impact upon the future financial sustainability of the Local Authority. A worst case and best case scenario could be reviewed and contingency plans identified to mitigate any risks identified. **Management Response and due date** Scenario planning will be incorporated with the Financial Strategy updates from June 2016. Chief Financial Officer
2.	**Issue** The Council has a good opportunity through the new Management Commentary report within the annual accounts to promote areas of achievement/further development within the Council. **Risk** Guidance from the Scottish Government suggests the Management Commentary should "tell the story" of the Council. There is a risk that commentary focuses too heavily upon financial information and readers of the accounts will not be made aware of key non-financial achievements and progress on the council's objectives during the year.	Medium	In subsequent years the Council should aim to include a brief summary of key activities of the Council which have progressed during the year. These can be supported with performance reporting of non-financial key performance indicators where appropriate. Examples of areas where the Council could focus may be attainment in schools, recycling, social & health integration etc. **Management Response and due date** The Council will review whether increasing the length of the Management Commentary adds value to the document and will ensure it complies with best practice. June 2016 Chief Financial Officer
3.	**Issue** The brought forward cost and depreciation figures do not agree to the Fixed Asset Register. There is no impact on the Net book value of the assets held by the Council. **Risk** There is a risk that the cost and depreciation figures continue to be overstated.	Medium	The Council have carried out a review and have identified that substantial work is required to adjust the cost and depreciation figures. The Council should carry out further work to correct the disclosure of cost and depreciation as soon as possible. **Management Response and due date** A full revaluation of all assets is due for the 2016/17 accounts, this will be advanced for the 2015/16 accounts which will resolve this issue and procedures will be amended to ensure this is not repeated. June 2016 Finance Manager

Appendix A: Action Plan (Continued)

	Issue and Risk	Priority	Recommendation
4.	**Issue** Slippage in the capital programme persists at the Council. Progress has been made to tackle slippage in 2014/15, however the problem persists. The Council have planned capital expenditure of £29m in 2015/16 and £46m in 2016/17 **Risk** Given slippage is experienced at the current level of capital expenditure (£29m), there is a risk that the Council will continue to realise internal slippage with increased levels of capital expenditure projects in future periods.	Medium	The council should consider their available resource and project management capability in light of extensive capital expenditure plans established for 2015/16 and more notably 2016/17 when expenditure is planned to significantly increase. Following due consideration, the Council could re-assess the capital plan to ensure work can be completed. **Management Response and due date** The exercise is carried out annually and will be done again as part of the 2016/18 budget in February 2016. Corporate Director Environmental Regeneration and Resources
5.	**Issue** The Health and Care Committee will be the Councils scrutiny body for the IJB. Currently membership of the scrutiny committee is open to members of the IJB. **Risk** There is a risk of self review if members of the scrutiny committee are also on the IJB.		The Council should consider the appropriateness of IJB members being members of the Health and Care Committee, or what mitigations will be made for reducing the risks of conflict of interest and self review. **Management Response and due date** The matter will be considered after one year of operation of the IJB in September 2016. Chief Officer HSCP

Appendix B: Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There are no unadjusted misstatements to report.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Statement	Balance Sheet
1	In July 2015 asbestos was identified on the site of the previous Greenock Academy. The value of the land in the draft accounts did not take account of the impact of the contamination. Following free reserves being earmarked post year end the Council have elected to remove the asbestos from the site. The expected cost is £0.420m. A provision of £0.420m has been made for the removal of the asbestos.	nil	Dr £0.420m Cr £0.420m
2	During the audit, it was identified that all capital expenditure on the refurbishment and extension of the Ardgowan primary school had been impaired (£4.9m). The Council have reviewed the basis for the impairment and amended the impairment to take into account some of the expenditure related to an extension of the premises and therefore would have added value to the asset. The impairment of Ardgowan has been reduced to £3,915m. An amount of £0.979m was capitalised to reflect the extension.	Cr £0.979m	Dr £0.979m
3	Items were noted on the fixed asset register which related to an asset which was disposed of during the year. As such, these were not included in the loss on sale calculation for St Stephens school. The adjustment increases the overall loss on sale of non-current assets recorded within Other Operating Expenditure to £6,234m and reduces the net book value of assets by £1,345m.	Dr £1.922m	Cr £1.922m
4	Following Disposal of St Stephens School the Council are committed under contract to demolish the building after a period of 2 years. A provision was therefore proposed to account for the future committed expenditure estimated at £0.420m. The adjustment reflected in the accounts increases the Council's long term provisions reduces the net asset position as at 31 March 2015.	nil	Dr £0.497m Cr £0.497m
5	A transfer between the revaluation reserve to the capital adjustment account of £0.377m to reflect the difference between fair value depreciation and historic cost depreciation has been made in line with the code.	nil	Dr £0.377m Cr £0.377m
Common Good Fund			
1	Expenditure relating to the Common Good Fund was mis-posted to the Council. This increase the expenditure of the Common Good by £0.009m and reduces cash balances of the Common Good by the same amount.	Dr £0.009	Cr £0.009

Appendix C: Misclassifications & Disclosure Changes

The table below provides details of the most significant misclassification and disclosure changes identified during the audit which have been updated for by management in the final set of financial statements.

Note / Location	Detail	Impact upon the financial statements
Remuneration Report	Prior year comparative information for pension contributions within the pension benefits tables for senior officers and Councillors was required.	Change has been made within the remuneration report, no additional changes required.
Note 1	Additional accounting policies relating to the Council acting as an agent and interest in other entities have been included in the Note 1 to the Accounts.	Disclosure of accounting policy only.
Note 3	Additional disclosures for critical judgements in relation to going concern and the carrying value of assets have been added to Note 3.	Disclosure of critical judgements only.
Note 4	Additional disclosures of assumptions made about the future and other major sources of estimation uncertainty have been made in relation to: • property, plant and equipment	Disclosure of assumptions and major sources of estimation only.
Note 5	Material items of expenditure relating to Housing Benefit payments have been included in the note.	Disclosure of additional material items of expenditure only.
Note 6	Contamination was discovered at a former school site during the course of the audit. A post balance sheet event has been disclosed in the accounts.	The post balance sheet event has resulted in a provision for contamination removal to be included in the accounts and an additional contingent liability.
Note 10	The Council had not separately reflected all movements in land and buildings valuation following revaluation of specific assets. A net figure for revaluation movements taken to the revaluation reserve was presented. We proposed the Council separate the movement to clearly show elements of the movement including depreciation written back upon revaluation and movements in cost/valuation as a result of the exercise.	There was no impact on the Net Book Value of the assets as a result of these changes.
Note 13	The note did not include sufficient disclosure to enable reconciliation with the financial statements as required by IFRS 7.	The Council have made the necessary disclosure updates within the note to reflect the requirements of the accounting standard.
Note 19	The amount transferred between the revaluation reserve and capital adjustment account as a result of the difference between fair value depreciation and historic cost depreciation had not been separately disclosed.	The difference between fair value depreciation and historic cost depreciation has been disclosed in the revaluation reserve and capital adjustment account.
Note 27	An additional disclosure was made in relation to donated assets received from Riverside Inverclyde. Some minor adjustments were made to the disclosed transactions relating to Inverclyde Leisure for 2014/15 and 2013/14 and the Common Good for 2014/15.	A revised note was provided including additional disclosure of donated assets.
Note 34	As part of Inverclyde Leisure's and Riverside Inverclyde's applications to join the Local Government Pension Scheme, Inverclyde Council are required to assume any contingent liability for non-funded costs of the pension fund relevant to Inverclyde Leisure should they cease to exist for any reason.	An additional contingent liability has been included within the note to the accounts for the non-funded pension liabilities for Inverclyde Leisure and Riverside Inverclyde.
Note 34	Contamination was discovered at a former school site during the course of the audit. Investigations are on going to identify the extent of the contamination.	An additional contingent liability ha A post balance sheet event has been disclosed at note 6 and a provision for the known element of restorative costs included within the accounts

Appendix D: Follow-up of prior year actions

The table below provides details of issues identified during the 2013-14 audit and our recommendations presented within the Annual Report to Members. We have conducted a review of action taken in the current year against our recommendations.

	Issue and Recommendation	Action taken
1.	**Issue** The Council has £38m of Earmarked Reserves. **Recommendation** The Council should review the earmarked reserves and ensure a spending plan is in place to meet the objectives of the Council. **Management Response in Prior Year** The phasing of all EMRs have been reviewed at the start of 2014/15 and is reported to CMT and each Committee. This forms part of senior officer appraisals. Reserves will also be reviewed as part of the 2015/17 budget	Reflected as an external audit recommendation in the Internal Audit report to Audit Committee on 06 January 2015. Responsibility attributed to the Chief Financial Officer with expected date of resolution 01 April 2015. A revised earmarked reserves policy was approved by the Policy and Resources Committee in May 2015. The amendments focus on the following areas: • approval process • rationale • managing delivery and spend.
2.	**Issue** The Council has historically underspent against the capital programme. The Policy & Resources Committee have approved an action plan to address capital slippage. **Recommendation** The Council should monitor and receive regular updates on progress against the action plan. **Management Response in Prior Year** The information included in capital reports on slippage has been standardised and strengthened, added to which slippage is within senior officer appraisal targets. No further action is proposed.	As noted in management's response, no further actions have been progressed. We have reviewed subsequent capital reports which clearly state progress of the Council against the 4 key priorities set out to address slippage % in the prior year. The council have made significant progress in the reporting of slippage to committee in a timely manner and bringing forward capital expenditures where possible. Please see Financial Management section of this report where further review of capital reports is noted. We have made a recommendation in appendix A reflecting the increased capital expenditure expected in the next few years.
3.	**Issue** The overall budget for the year reduced from £197.742m to £192.713m and service budgets have reduced from £180.217m to £164.988m. From review of the General Fund Revenue Budget monitoring papers, there is scope to more clearly highlight these movements. **Recommendation** Changes to the budget should be clearly highlighted within the Budget Monitoring report. **Management Response in Prior Year** The current presentation of budget movements in Budget Monitoring reports will be reviewed and factored into reports on the 2015/16 budget.	Reflected as an external audit recommendation in Internal Audit report to Audit Committee on 06 January 2015. Responsibility attributed to the Chief Financial Officer with expected date of resolution 31 August 2015. A specific appendix has been added to the Revenue Monitoring reports from August 2015.

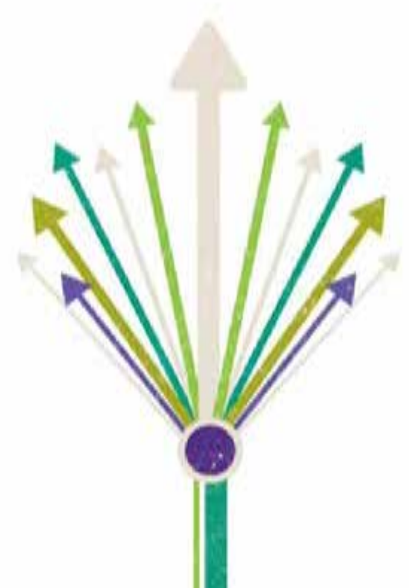
Appendix D: Follow-up of prior year actions (continued)

	Issue and Recommendation	Action taken
4.	**Issue** Duplicate assets were noted on the fixed asset register following a large scale revaluation of non-current assets. **Recommendation** A reconciliation check should be performed where the carrying value of assets is summed and reviewed against the total re-valued amount proposed by the Council's valuer. This will alert management to potential duplications or omissions. **Management Response in Prior Year** Management will review procedures in order to implement adequate checks and/or reconciliations to ensure where possible that no revaluations are omitted or duplicated.	Our review of non-current assets which were revalued during the year found no issues regarding duplicate assets. The responsibility for the action was assigned to the Head of Finance to be implemented upon completion of the 2014/15 revaluation. However, we did identify assets which had been disposed of which had not been removed from the fixed asset register (see appendix B). We have made a recommendation to management to review the process for preparing the capital elements of the Statement of Accounts.
5.	**Issue** Following large scale revaluation the accumulated depreciation amount for revalued assets should be re-set to nil. **Recommendation** The Council should adopt this requirement in line with paragraph 4.1.2.31 of the CIPFA/LASAAC Code. **Management Response in Prior Year** Management will review procedures in order to implement adequate checks and/or reconciliations to ensure appropriate treatment of revaluation.	Our review of revaluation treatment of accumulated depreciation in the 2014/15 exercise found no issues. Management have adopted the requirements of paragraph 4.1.2.31 of the code for all items reviewed as part of the 2014/15 revaluation. The historical cost and accumulated depreciation of assets brought forward has not been retrospectively updated due to the significant volume of work that would be required. We have made a recommendation that management progress this action as soon as possible (see appendix A).

Appendix E: Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from the Council. A copy of which is presented in Appendix H • In particular, representations will be requested from management in respect of: – significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – responsibility for the design and implementation of internal control to prevent and detect error and fraud – related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the CIPFA Code – all events subsequent to the date of the financial statements and for which the CIPFA Code and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2	Disclosures	• Our audit work identified no material omissions in the financial statements. We have proposed a number of amendments to improve disclosure (see appendix C) which the Council have reflected in the audited Statement of Accounts.
3	Matters in relation to fraud	• We have been made aware of one incident in the period and no other issues have been identified during the course of our audit procedures
4	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed within the accounts following inclusion of narrative pertaining to donated assets received from Riverside Inverclyde (see appendix C)
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



Appendix F: Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm we have not provided any non-audit services to the Council.

Fees

	Per Audit plan £	Actual fees £
Council Audit (including grant certification)	262,095	262,095
Total audit fees	**262,095**	**262,095**

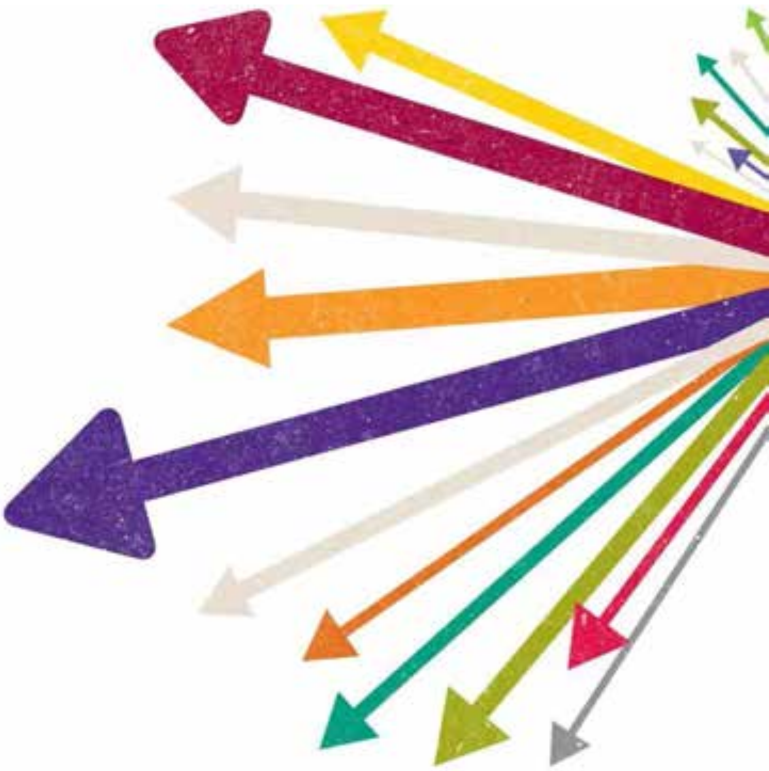
Fees for other services

Service	Fees £
No other services provided	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



Appendix G: Draft Independent Auditors Report

Independent auditor's report to the members of Inverclyde Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Inverclyde Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement, the Council Tax Income Account, the Non-domestic Rate Account, Common Good Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the abstract of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendix G: Draft Independent Auditors Report (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Michael Thomas, (for and on behalf of Grant Thornton UK LLP)

Royal Liver Building

Liverpool

L3 1PS

24 September 2015

Appendix H: Letter of Representation

Grant Thornton UK LLP
95 Bothwell St
Glasgow
G2 7AN

[Date- same as accounts]

Dear Sirs,

Inverclyde Council

Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the financial statements of Inverclyde Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

Appendix H: Letter of Representation (continued)

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

ix. The financial statements are free of material misstatements, including omissions.

x. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xiii. We have communicated to you all deficiencies in internal control of which management is aware.

xiv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix H: Letter of Representation (continued)

xvi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

management;

employees who have significant roles in internal control; or

others where the fraud could have a material effect on the financial statements.

xvii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xviii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix. We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 24 September 2015.

Signed on behalf of the Council

Name……………………………

Position………………………….

Date…………………………….

grant-thornton.co.uk

GRT101525