

Inverclyde Council

Annual Report to Elected Members and the Controller of Audit for the financial year ended 31 March 2016

September 2016



Key messages

Inverclyde Council (the Council) produced a good set of accounts although we did identify two adjustments, one material, to the primary statements and a number of disclosure changes. The Council has continued to underspend and in 2015/16 underspent its revenue budget by £5.81 million. Uncommitted reserves at 31 March 2016 were £8.773 million. The Council's overall usable reserves are the highest of all Scottish councils as a proportion of annual income. The Council has set a balanced budget for 2016/17 and is working on closing the 2017/18 budget funding gap. The Council's Financial Strategy 2016/2024 showed between 2017/20 the Council predicts a funding gap of £22.5 million, with best and worst case scenarios being £13.1 million and £37.4 million respectively. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decision will need to be made.

The Council is continuing its approach of considering how services are delivered and in June 2016 it approved a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils.

ISA 260 requirements

We intend to issue an unqualified opinion on the Council and Group's 2015/16 financial statements.

We did not have reason to change our audit plan during the year.

We have agreed one material and one non-material adjustment to the primary statements which reduced the Council's non-current asset value by £16.069 million. The Council has made some minor amendments which has resulted in a £63,000 reduction in usable reserves. Some changes were made to the group accounts. There were no unadjusted differences to report. A number of disclosure changes were made and these are reported in Appendix B.

We identified two areas where improvements in controls were required relating to dealing with leavers and introducing secondary checks on the fixed asset register.

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.

Financial management

The Council has continued its record of tight budgetary control and underspending against its revenue budget. The underspend in 2015/16 of £5.81 million was £1.42 million higher than the 2014/15 underspend. Some of the main variances were additional turnover savings achieved across the Council and release of contingencies not required in 2015/16 due to lower than expected rates of inflation.

Inverclyde Council has a history of slippage in its capital programme. However, in 2015/16 officers managed the programme proactively to accelerated other projects to offset slippage with the result that outturn capital expenditure was £31.127 million against a capital programme of £30.229 million.

The 2015/16 budget set the level of core reserves at £3.8 million. This level has been maintained as a target in the 2016/17 budget. Uncommitted reserves at 31 March 2016 were £8.773 million which is an increase of £3.785 million from the 31 March 2015 figure of £4.988 million.

Inverclyde has the highest level of usable reserves as a proportion of annual income of all Scottish councils. The Council has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council. As the financial position tightens the Council will need to ensure it maximises the benefit it gets from every pound of usable reserves it uses.

Financial sustainability

The Council set a balanced revenue budget for 2016/17 of £190.25 million. The 2017/18 budget of £187.298 million was set with an initial funding gap of £3.41 million. The Council had already agreed to use £2 million of reserves on a temporary basis to balance the 2017/18 budget with options to address the rest being the consideration of further savings, potential increase in Council Tax from 2017/18 or further temporary use of reserves.

In June 2016 the Financial Strategy 2016/2024 update showed between 2017/20 the Council predicts a funding gap of £22.5 million. In response to our recommendation from last year the Council has also assessed best and worst case scenarios which were £13.1 million and £37.4 million respectively. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decisions will need to be made.

The Common Good Fund revenue reserve has reduced in recent years and has a balance of £14,000 at 31 March 2016. This is below the Council's recommended minimum level of £100,000. The position on the Common Good Fund will need to be closely monitored during 2016/17 and appropriate action take to ensure the reserve is not in a deficit position.

Governance and transparency

The Council's Annual Governance Statement (AGS) was 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 areas for further development.

The Council's current Chief Executive, John Mundell OBE, will retire from the Council's service on 19 September 2016. After the conclusion of its selection process, the Council, at its meeting on 25 August 2016 appointed Aubrey Fawcett, as the new Chief Executive.

No significant matters have been identified by the internal audit team in the year. A number of action plans were agreed in respect of Internal Audit reports in 2015/16. Of the 52 actions agreed, 29 (83%) out of the 35 due by the 30 June 2016 had been fully implemented.

Governance arrangements for the Glasgow and Clyde Valley City Deal have been established. Glasgow City Council's Internal Auditor's reported that key controls are in place and generally operating effectively for the governance structure of the City Deal. Some recommendations have been made to strengthen existing practices and controls.

We have no concerns regarding the Council's arrangements to mitigate against fraud and corruption. The Council has actively participated in the 2014/15 National Fraud Initiative (NFI) and will be involved in the 2016/17 process which will begin in October 2016.

Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016. There is a need for the Council to ensure it agrees Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed.

As part of the 2015/16 audit the Council put in place a formal system for senior officer related party declarations. This involved the six most senior officers completing a return. These were then considered by management as to whether any declarations needed to be made in the final version of the 2015/16 accounts. Three further disclosures were made in the 2015/16 accounts. The introduction of this system for senior officer declarations is a further strengthening of the Council's governance arrangements. The system put in place for 2015/16 would be enhanced if was extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards.

Best value and value for money

Performance indicators for 2015/16 have yet to be published. In 2014/15 Inverclyde Council ranked in the top two quartiles for just under half (49%) of indicators, while 28.6 % were in the third quartile and less than a quarter (22.4%) were in the fourth quartile compared against other Scottish local authorities. By comparison in 2013/14 55.6% of indicators were in the top two quartiles and 44.4 % in the bottom two quartiles. Like other local authorities, Inverclyde's performance in 2014/15 varies across the spectrum of indicators this is to be expected and can be related to a variety of local factors including deprivation levels, investment and policy decisions and population density. Clear linkages can be seen between policy decisions and performance levels.

For many years the Council has had a strong Community Health and Care Partnership (CHCP) which has been recognised as a real strength area for the Council. These arrangements have provided a solid platform for the integration of health and social care. The Council benefitted from this during the early set up stages of the new arrangements. The Inverclyde Integration Joint Board (IJB) approved its Strategic Plan 2016-2019 on 15 March 2016 which sets out its intentions and priorities. The previous arrangements were supportive of engagement and participation and the principles of co-production and this ethos has been maintained into the IJB.

The Council has previously discussed the possibility of exploring shared service opportunities with neighbouring authorities. In the increasingly challenging financial environment and with the protection of key service areas such as education and the integrated health and social care budgets the challenges are even more acute for a number of other service areas. In this context the Chief Executive prepared a report to the Council at the end of June 2016 proposing approval of a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils. Proposed areas for sharing services include roads and transportation, fleet management and maintenance, grounds, parks and open spaces and environmental services refuse, recycling and waste.

Audit Scotland as part of their housing benefit risk assessment programme reviewed progress the Council had made since March 2012. It found that the Council has made excellent progress. The two areas it identified as still outstanding have now been addressed.

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1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Inverclyde Council for 2015/16.

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

Audit Scotland appointed Grant Thornton UK LLP as auditor of the Council for the period 2011/12 to 2015/16. The 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 under our Audit Scotland obligations.

In our report, we summarise our opinion and conclusions on significant issues arising from our external audit for the year ended 31 March 2016.

The Council's responsibilities

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

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 2016
- 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 are achieved in the use of resources. We note that delivery of best value is a statutory obligation for the Council.

Our responsibilities

We are required to meet the requirements of the Code of Audit Practice ('the Code') May 2011, including consideration of the wider scope of public sector audit.

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

International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance requires us to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report, together with other reports to the Audit Committee throughout the year, discharge 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, the Finance Team and all other staff who supported us 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

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.

Corporate governance

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

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.

Best value and performance

- The Local Government in Scotland Act 2003 places a statutory 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 2015/16 we have completed a baseline assessment of workforce planning arrangements.



2. ISA 260 communication to those charged with governance



Financial statements overview

Introduction

We have not had to alter or change our audit approach, which we set out in our Audit Plan, which was presented to the Audit Committee on 23 February 2016. However, on receipt of the draft financial statements we updated our materiality calculations (see page 10).

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

- group reporting
- completion of WGA pack
- sign off of Criminal Justice Social Work, Housing Benefit and Non Domestic Rates grant claims
- completion of final review procedures
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review as part of our concluding procedures, to the date of signing the opinion.

Financial statements opinion

Our audit identified one material adjustment and one non-material adjustment to the primary financial statements. Both adjustments relate to accounting for revaluations of assets. The material misstatement was a result of a small number of assets, particularly schools, where there were some inconsistencies between the asset register and the valuation report which had not been resolved. This reduced the Council's non-current asset base by £16.069 million. The other non-material misstatement was the result of the incorrect accounting for some asset revaluations. This had no impact on the overall asset base. These adjustments have been reflected by management in the updated version of the Accounts. The Council has also identified some very minor changes which it has changed in the final version of the accounts with the overall impact being a reduction of £63,000 in usable reserves (see Appendix A). A number of other 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 the disclosure amendments.

The Group Accounts have been amended to show the opening balances consistent with the audited closing balances from the previous year. Further changes have been identified by the Council when they received audited accounts of organisations within the group, and the amounts are different to those included in the draft statements.

We propose to issue an unqualified opinion on the Council and Group financial statements for the financial year ended 31 March 2016 (Appendix H).

We reviewed the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review these statements for compliance with recommended CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the Council. We have no issues to bring to your attention.

Grants certification

Due to a national systems issue, we issued a qualified audit opinion on the Education Maintenance Allowance grant. One minor error was identified from our certification of the Education Maintenance Allowance claim. The claim form was amended accordingly. However, due a national systems issue with the SEEMiS EMA system which was flagged by Audit Scotland, we confirmed that required back payments post 1 October 2015, for EMA applications received on a Thursday or Friday, were not being calculated by the system. As a result we were unable to provide an unqualified opinion on the claim, as we were unable to quantify the magnitude of error as a result of the systems issue. We note that the qualification was not any fault of the Council's and that appropriate action will be undertaken nationally to fix the system error.

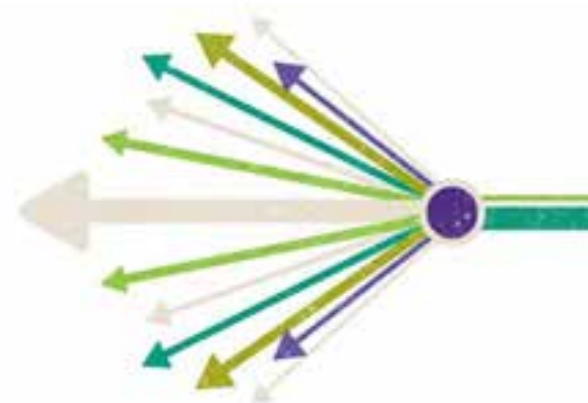
The Criminal Justice Social Work and Non Domestic Rates grant work are advanced and we expect to sign in September 2016. The Housing Benefit grant claims will also be signed following completion of our audit work in October to ensure we meet the relevant deadline.

Whole of Government Accounts

The Council submits a WGA pack for the financial year ended 31 March 2016.

For 2015/16 the Council is below the testing threshold and therefore full audit assurance is not required.

In accordance with the WGA guidance we will complete the required assurance statement and submit that to the National Audit Office (NAO) once this work has been completed.



Our audit plan: a reminder

Scope of the Audit

We consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. In addition to the two presumed risks we identified one further significant risk and three reasonably possible risks, which are outlined on pages 11 and 12.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample substantive testing.



Change of materiality from Audit Plan

We revised our materiality downwards in the year in line with the reduction in gross expenditure in the 2015/16 unaudited accounts. This resulted in final materiality of £5.181 million and final performance materiality of £3.627 million.

Audit findings against significant and reasonably possible risks

Set out below is our response to the other 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 but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

Significant Risks identified in our audit plan	Work completed	Assurance gained
<p>1 Management override of controls</p> <p>Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management including pension assumptions and property valuation Testing of journal entries Review of unusual and/or significant transactions 	<p>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.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p>	<ul style="list-style-type: none"> Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> 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 general grant funding from the Scottish Government totalling £146.4 million. We have substantively agreed grant funding to confirmation from the Scottish Government. The remainder is made up of £24.4 million of NDR redistributions (agreed to funding correspondence and cash receipts), £27.7 million of council tax income (tested analytically and reconciled to Council Tax system) and £59.6 million of other grant income (sample tested to grant agreements and receipt). In addition we have conducted judgemental sampling of fees, charges and other income to trace to cash receipts. 	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>

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



(ISA (UK&I) 315).

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 but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

Significant Risks identified in our audit plan	Work completed	Assurance gained
<p>1 Valuation of Property, Plant and Equipment</p> <p>Valuation measurements are not correct.</p> <p>The Council revalues its assets on a rolling basis over a five year period. A full asset revaluation took place in 2015/16. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Review of management’s processes and assumptions for the calculation of the estimate • Review of the competence, experience and objectivity of management experts used • Review of the instructions issued to the valuation experts and the scope of their work • Discussions with the valuer about the basis on which the valuation is carried out and challenge of key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations in year to ensure they were input into the Council’s asset register and correctly accounted for in the financial statements. 	<p>Our work on Property, Plant and Equipment (PPE) balance and associated revaluation transactions has identified one material error which has reduced the Council's non-current asset value at 31 March 2016 by £16.069 million. This was the result of a small number of assets, particularly schools, where there were some inconsistencies between the asset register and the valuation report which had not been resolved. We also identified a writeback of prior year impairments against revaluation gains totalling £2.352 million although this had no impact on asset values. See Appendix A</p> <p>We also identified some disclosure and misclassification errors which are detailed in Appendix B. These included some material adjustment to the PPE Note 8 with no impact on the balance sheet net book value of assets.</p> <p>After these amendments we have gained sufficient assurance over the Property, Plant and Equipment balance and associated revaluation transactions.</p>

Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental 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 'reasonably possible' risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Operating expenses	<p>Operating expenses are understated or not recorded in the correct period</p> <ul style="list-style-type: none"> Inverclyde is responsible for the delivery of a range of services to the local area. In 2015/16 the cost of delivering these services was £256.7 million Purchasing is decentralised across service lines with the budgetary responsibility with the senior managers to ensure monies are recorded correctly 	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the controls and processes in place over purchase ordering, procurement and general payment and recording of expenditure Review of accounting estimates, judgements and the accruals accounting process Reconciliation of the creditors system to the general ledger and financial statements Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts. 	<p>We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of operating expenses.</p>
Employee remuneration	<p>Employee remuneration and benefit obligations and expenses are understated:</p> <ul style="list-style-type: none"> Employee costs accounted for 39% of gross expenditure in 2015/16. 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 	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> Review and walkthrough of the processes and controls in operation for payment of staff Analytical review of employee remuneration in comparison to expectations Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces Testing to confirm the completeness of payroll transactions and appropriate cut-off Review the relevant disclosures relating to staff costs within the financial statements 	<p>We gained sufficient assurance over employee remuneration processes to conclude that there is no material understatement of employee remuneration and benefit obligations and expenses</p>

"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"






Accounting estimates and significant judgements

Accounting area	Summary of policy	Commentary	Our assessment
Revenue recognition	<ul style="list-style-type: none"> 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 and that the grants or contributions will be received 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 Revenue from provision of Services: Recognised when the Council can measure reliably the percentage of the completion of the transaction Council Tax: Council Tax accrued income less reliefs and remissions is recognised in the CIES. Non-domestic Rates: Non-domestic rates accrued income less reliefs and remissions, plus the contribution to the Authority from the national Non-domestic Rate pool is recognised in the CIES. 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate under the CIPFA Code of Practice on Local Authority Accounting. 	●
Property, plant and equipment (PPE)	<ul style="list-style-type: none"> The Council discloses its policy in respect of PPE recognition, measurement (including revaluation), impairment, disposal and depreciation Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end The Council re-values its land and buildings in a single exercise at five yearly intervals A large scale revaluation was undertaken in 2015/16. 	<ul style="list-style-type: none"> The Code requires that the Council revalues items within a class of property, plant and equipment simultaneously. The Council has revalued all relevant non-current assets at 31 March 2016 and has therefore met this Code requirement. 	●

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

Accounting area	Summary of policy	Commentary	Our assessment
Provisions	<ul style="list-style-type: none"> 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 and a reliable estimate can be made of the obligation 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 	<ul style="list-style-type: none"> We are satisfied the policy is appropriate under the CIPFA Code of Practice on Local Authority Accounting. 	
Pension fund valuations and liabilities	<ul style="list-style-type: none"> The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme in accordance with IAS 19 This involves recognition in the Balance Sheet of the 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 	<ul style="list-style-type: none"> 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 competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year We have relied on an auditors expert, PriceWaterhouseCoopers (PwC) UK LLP, to provide assurance over the reasonableness of assumptions and judgements applied by the actuary We are satisfied pensions have been disclosed appropriately 	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards 	<ul style="list-style-type: none"> Disclosures were in line with the CIPFA Code and considered reasonable 	

Group audit summary

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 (set out in ISA 600).

Accounting area	Summary of risks	Commentary	Our assessment
Inverclyde Leisure	<p>ISA presumed significant risk: management over-ride of control.</p> <p>ISA presumed significant risk: the revenue cycle includes fraudulent transactions.</p>	<p>A full scope audit was performed by Welsh Walker accountants. We issued group instructions outlining our key risks and planned materiality levels.</p> <p>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.</p>	<p>We have received notification of updated figures from the auditor's. Minor adjustments made from the draft financial statements. No impact on the Group Accounts.</p>
Riverside Inverclyde	As above	As above with the audit performed by Scott-Moncrieff.	<p>We have received the audited accounts. Significant adjustments made from the draft financial statements. These have been reflected in the updated Group Accounts.</p>
Renfrewshire Valuation Joint Board	As above	As above with the audit performed by Audit Scotland.	<p>We have received the audited accounts and component auditor's opinion on the financial statements. Minor adjustments made from the draft financial statements. No impact on the Group Accounts.</p>
Strathclyde Partnership for Transport	As above	As above with the audit performed by KPMG UK LLP.	<p>We have received the audited accounts and component auditor's opinion on the financial statements. No adjustments made from the draft financial statements. No impact on the Group Accounts.</p>
Strathclyde Concessionary Travel Scheme Joint Board	As above	As above with the audit performed by KPMG UK LLP.	<p>We have received the audited accounts and component auditor's opinion on the financial statements. No adjustments made from the draft financial statements. No impact on the Group Accounts.</p>

Other areas of audit focus

Internal controls

We update our understanding of the Council's key financial controls and overall control environment on an annual basis.

We considered internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate to our financial statements audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We undertook walkthrough testing related to:

- employee remuneration
- operating expenditure
- property, plant and equipment
- housing benefit
- journal entries

We identified two areas where weaknesses in controls meant improvements were required. These related to:

- **Leavers still being paid** – during our testing of payroll transactions we identified one case where the Council continued to pay an employee who had left the Council leading to an overpayment of £2,106.28. The explanation given was that this overpayment had arisen because Human Resources (HR) were not notified by the employing department that the employee had left the Council. In this case the overpayment was only identified when the ex-employee rang the Council to raise the matter. In response to this we tested all leavers in 2015/16 who had received payments more than 30 days after their date of leaving. We found that there were legitimate reasons in most cases but that four further employees had been overpaid due to late notification from the employing department. Overpaid monies have been recovered in all cases. The Council should review its arrangements for promptly notifying HR about leavers so that the payroll department can action the changes. One overpayment was only identified when the employee called the Council. The Council should consider a periodic validation process where budget managers confirm that employees are still employed by the Council.
- **Management of the fixed asset register** – we are aware that the accountant responsible for capital accounting and maintaining the fixed asset register left the Council during the accounts production process. This will always make the closedown process more difficult. Our work on Property, Plant and equipment identified some inconsistencies between the asset register and the valuation report which had not been resolved. We identified a further number of issues including the fact that the wrong enhancement amount had been applied to three assets and that the Council had identified one asset that was not included on the asset register. It would enhance arrangements if the Council introduced secondary checks on the fixed asset register so that any errors on areas such as enhancements applied,

revaluations and impairments are identified prior to the production of the draft accounts.

Refer to Action Plan points 1 and 2

Going concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures. The Council has set a budget for 2016/18 and has a Financial Strategy 2016/2024 that sets out financial forecasts through to 2019/20.

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

Future accounting considerations: Highways Network Asset (HNA)

The key accounting change for 2016/17 which will impact on the Council's financial statements is around bringing highway network asset (HNA) on balance sheet.

As part of our liaison with Audit Scotland in February 2016 we had discussions with the Council on its progress on preparing for HNA. The Council was making solid progress with:

- SCOTS Valuation Model populated by the Council's Highways Engineer. More information, for example street lighting, was being added
- a pro-forma of what SCOTS Valuation Report will include
- draft project plan in place.

We feel that the steps taken in advance of the introduction of HNA have been reasonable and this will be an area for attention in the 2016/17 financial statements.

3. Financial management



Financial management

2015/16 out-turn

In February 2015, and common with its approach in previous years, the Council set a two year revenue budget 2015/17 and three year capital budget 2015/18. The Council approved a revenue budget for 2015/16 with planned expenditure of £193.059 million and generating a £2.587 million surplus. To balance the 2016/17 the Council approved the interim use of £3.298 million of revenue reserves.

The agreed budget of £193.059 million was revised downwards to £170.623 million by the Council to take account of loan charges and transfers to and from earmarked reserves. The Council has a track record of underspending against its revenue budget. The underspend in 2015/16 of £5.81 million was £1.42 million higher than the 2014/15 underspend. The 2015/16 outturn against budget is shown below.

	Revised Budget 2015-16 £000s	Outturn 2015-16 £000s	Over/ (Under) Spend 2015-16 £000
Policy & Resources	16,825	13,366	(3,459)
Education & Committees	83,874	82,329	(1,545)
Environment & Regeneration	20,150	19,791	(359)
Health & Social Care	49,774	49,323	(451)
Committee Net Expenditure	170,623	164,809	(5,814)

As at 31 March 2016 there was a £5.814 million underspend against service committee budgets. The main variances include:

- additional turnover savings achieved across the Council of £1.34 million.
- release of contingencies not required throughout 2015/16 £2.458 million. This was due to lower than anticipated requirement for inflationary pressures around utilities, fuel, Social Care, PPP and waste contracts
- underspend on Education Early Years' Service of £0.63 million due to a number of nurseries operating at below Care Commission registration capacity.
- Reduction in care package costs across Health and Social Care budgets leading to a £0.40 million underspend.

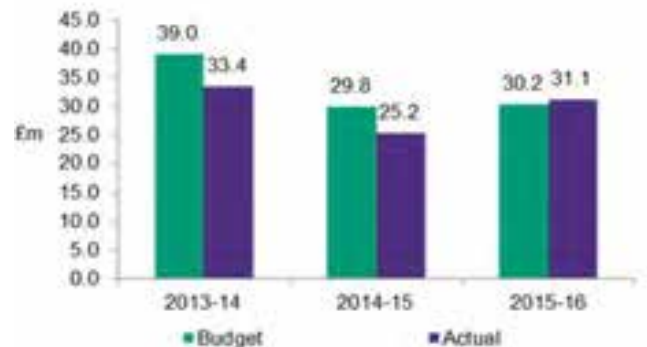
Efficiency Performance

The Council is required to make an annual return in respect of recurring efficiency savings. For 2015/16 the Council achieved recurring efficiency savings of £1.741 million. This continues the Council's history of making efficiency savings with £15.536 million having been made between 2008/09 and 2015/16. It should be noted that this excludes £4.6 million of efficiencies generated by the School Estate Management Plan since 2006 which have helped fund replacement schools.

The 2016/17 budget contains approximately £2.5 million of efficiency savings and the delivery of these saving will be monitored, throughout the year, by the Corporate Management Team (CMT).

Capital programme

Inverclyde Council has a history of slippage in its capital programme. However, in 2015/16 projects were accelerated to offset slippage with the result that outturn capital expenditure was £31.127 million against a capital programme of £30.229 million as shown below:



Source: Inverclyde Council 2015/16 Capital Programme Outturn

Officers have taken actions to address slippage in projects and also to accelerate capital expenditure in other areas to offset slippage. In 2015/16 there was slippage of £5.692 million (18.8%) mainly due to project cost reductions, internal slippage and slippage involving third parties, but this was more than offset by actions taken by Officers to actively offset slippage or as a result of acceleration of other projects. The net effect is that capital outturn exceeded the original capital programme by £0.898 million.

This represents good progress against historically high levels of capital slippage and officers should ensure that capital expenditure and slippage is kept under close review.

Reserves position

The Council’s Reserves Strategy states that the “core” uncommitted General Fund Reserve should be approximately 2.0% of turnover. The 2015/16 budget set the level of core reserves at £3.8 million. This level has been maintained in the 2016/17 budget.

Uncommitted reserves at 31 March 2016 were £8.773 million which is an increase of £3.785 million from the 31 March 2015 figure of £4.988 million.



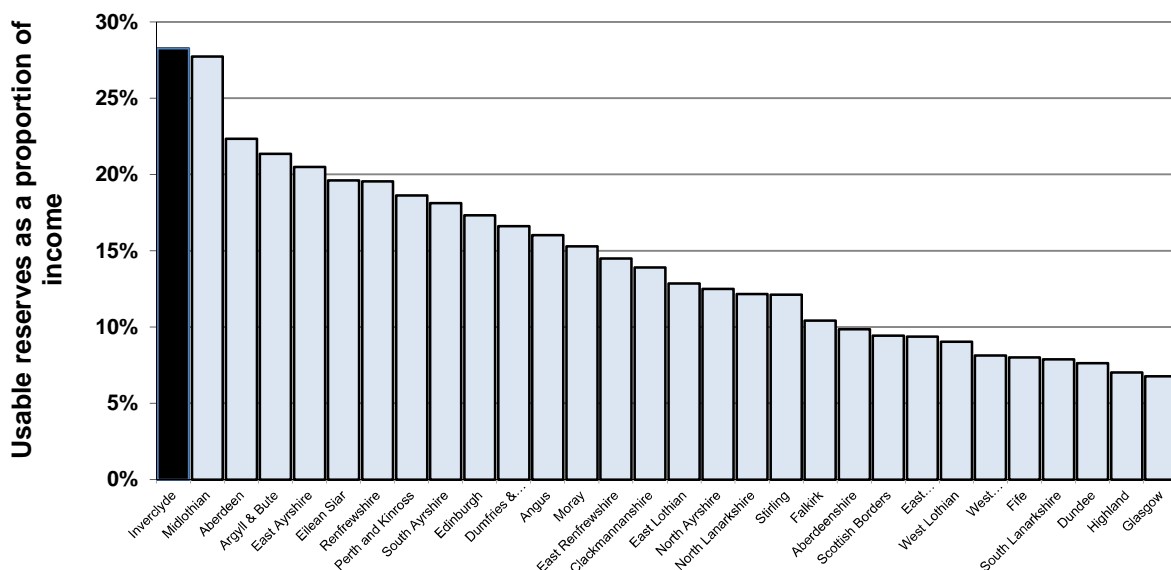
Source: Inverclyde Council Financial Statements 2013/14 to 2015/16

The earmarked element of the General Fund has increased slightly in year to £40.297 million (2014/15: £40.003 million). The reserves have been earmarked for specific purposes including:

- Equal pay (£4.56 million)
- Capital funded from current revenue (£5.93 million)
- Early retirement/voluntary severance reserve (£2.57 million)
- School Estates Management Plan (£5.70 million)
- Temporary use of reserves Revenue Budget (£2.00 million)
- Contribution to Riverside Inverclyde (£1.69 million)
- Asset Management Plan (£1.34 million)
- Loans charge reserve (£2.15 million)
- Miscellaneous Environment & Regeneration Committee Reserves (£3.12 million)
- Miscellaneous Education & Communities Reserves (£1.30 million).

The chart below shows that Inverclyde has the highest level of usable reserves as a proportion of annual income of all Scottish councils. This puts the Council in a stronger position than other councils but much of Inverclyde's usable revenue reserves are already earmarked. The Council has an approved reserves strategy and has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council. As the financial position tightens the Council will need to ensure it maximises the benefit it gets from every pound of usable reserves it uses.

Usable reserves as a proportion of annual income 2015/16



Source: Audit Scotland Technical Database July 2016 – Unaudited Financial Statements 2015/16

4. Financial Sustainability



Financial Sustainability

2016/17 and 2017/18 Budget

The Council set its budget for 2016/17 and 2017/18 in March 2016. The Members had received regular report since the summer of 2015 regarding the 2016/18 budget and a Members Budget Working Group met throughout the budget process and helped shaped the budget. However, following the Government Grant Settlement on 16 December 2015 the Council had to fundamentally revise its budget strategy and this was reported to the Policy and Resources Committee on 2 February 2016.

In March 2016 the Council set a balanced revenue budget for 2016/17 of £190.25 million, after the identification of £6.45 million of savings. The Council set a 2017/18 budget of £187.298 million but with an initial funding gap of £3.41 million. The Council had already agreed to use £2 million of reserves on a temporary basis to balance the 2017/18 budget. This left a budget gap of £1.41 million with the options to address this being the consideration of further savings, potential increase in Council Tax from 2017/18 or further temporary use of reserves.

The report to the Council on 10 March 2016 outlined the funding gap for 2017/20 as £22.54 million. In addition to the savings required in 2017/18 of £3.41 million significant savings of £10.1 million and £9.03 million required in 2018/19 and 2019/20. The key reasons for the funding gap in 2017/20 were:

- estimated reductions on Block Grant (£8.43 million)
- continuing impact of depopulation (£3 million)
- pay inflation (£5.95 million)
- non-pay inflation (£3.6 million)
- other known pressures account for £4.8 million with £3.24 million savings already identified in 2017/18.

The Council's capital programme has been set for 2016/18 with £28.636 million budgeted for 2016/17 and £48.555 million budgeted for 2017/18. The Council has been doing a lot of work around the timing of its capital programme and it is planning to develop a three year capital programme for 2017/20 for approval in February 2017.

There has been clear progress made in 2015/16 in delivering the 2015/16 capital programme in terms of actively offsetting slippage by acceleration of other projects. However, the 2017/18 capital programme of £48.555 million is some 60% bigger than the 2015/16 budget and includes £21.983 million of expenditure on schools new build, extensions and refurbishment. The Council will need to ensure that sufficient resources are in place to deliver the 2017/18 capital programme and to actively respond to minimise the impact of any slippage.

[Refer to Action Plan point 3](#)

Current financial performance in 2016/17

The Council's 2015/16 financial statements show that it is in a good position, with a high level of balances. However, looking forward into 2018/19 and 2019/20 it is clear that the need for savings to reduce the funding gap will increase significantly.

The latest revenue budget monitoring report showed that at 31 July 2016 there was a projected year end underspend of £0.427 million (0.22% of the net revenue budget). The main reasons being underspending on council tax reduction payments due to the Council Tax freeze, additional staff turnover savings across directorates and lower than planned expenditure on externally provided additional support needs (ASN) transport. The outcome of this is that the General Fund reserve is projected at £4.335 million at 31 March 2017 which is £0.535 million higher than the Chief Financial Officer's minimum recommended balance of £3.8 million.

The latest capital budget monitoring report showed expenditure to 31 July 2016 as £6.30 million (21.34% of the 2016/17 budget). It is anticipated that slippage will occur and budget holders have reviewed the phasing and project spend and officers are actively seeking to advance projects where possible to offset slippage.

Longer term financial position

The Council has in place a longer term financial strategy for 2016/2024. This is updated every six months with the latest update being in early June 2016 to reflect the approved 2016/18 budget and the latest information from UK and Scottish Government.

The latest Financial Strategy 2016/2024 update showed a funding gap of £2.8 million for 2017/18 which the Council has agreed will be met by a combination of a Council Tax increase and use of reserves. The medium term financial position is that between 2017/20 the Council predicts a funding gap of £22.5 million.

As part of our Annual Audit Report to Members 2014/15 we recommended to the Council that it should introduce best and worst case scenarios for funding gaps into its longer term financial planning. We are pleased to report that the Council has responded positively to our recommendation and has introduced scenario planning as part of its Financial Strategy 2016/2024 update. This showed the most likely position for 2017/20 being a £22.5 million funding gap but with best and worst case scenarios being between £13.1 million and £37.4 million. Scenario planning is useful for Members in helping them understand the wide spread of possible outcome and the future financial uncertainties that the Council is facing. At the meeting on 2 June 2016 this also began a debate amongst members about the possible options for dealing with the required savings issues. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decision will need to be made.

Common Good Fund

Our review of the 'Common Good Fund' identified that the usable revenue reserve at 31 March 2016 was now only £14,000. The Common Good Fund revenue reserve was £226,000 at 31 March 2014, this reduced to £99,000 at 31 March 2015 and is now £14,000. It is noted that in the setting the 2016/18 budget it was recognised that the Common Good was running at a deficit for a number of years and that available reserves had fallen to below the recommended minimum level of £100,000. The Council has agreed that the Christmas decorations will no longer be funded by the Common Good. The low balance on the Common Good Fund revenue reserve and annual costs mean that the position will need to be closely monitored during 2016/17 and appropriate action taken to ensure the reserve is not in a deficit position.

Refer to Action Plan point 4

An Overview of Local Government in Scotland 2016

Audit Scotland published 'An Overview of Local Government in Scotland 2016' in March 2016. This highlighted that councils face reductions in funding whilst also facing greater demands on services. The report recognises that councillors are now leading complex organisations facing increasingly challenging circumstances. To support councillors in undertaking their role the report makes a number of recommendations as summarised below.

In accordance with good practice Inverclyde Council has an established practice that national audit reports are presented to the relevant committee alongside an action plan. A summary of the Council's response is shown below.

Recommendation	Council's response
Council has a longer term financial strategy (5 or more years) supported by an effective medium term (3-5 years) financial plan.	The Council has a Financial Strategy covering 2016 - 2024. This was updated in June 2016 and enhanced by the inclusion of medium term scenario planning. The Financial Plan forms part of the overall strategy with a two year budget setting process.
Consider all practical options for the delivery of services including delivering services differently.	The Council has a track record of looking at alternative delivery models and in June 2016 has extended this to progress shared services with East and West Dunbartonshire Councils.
Continue to develop workforce strategies to ensure the Council has the staff with the right knowledge, skills and time to meet the challenges ahead.	The Council has an Organisational Development Strategy 2013-16 in place and the 2017-20 strategy is due to go to the Policy and Resources Committee in September 2016. A corporate Workforce and Development Group has been established. All planned actions to be implemented fully by March 2020.
Appropriate scrutiny arrangements taking into account different ways of delivering services.	Reports are produced for performance of services delivered by ALEOs or externally with an annual update in November each year.
Councillors to review their own personal and development needs	Over the last two year's Member training has included annual accounts, capital expenditure and ALEOs. Member training programme being developed for 2016/17 and will be reviewed annually.

We are satisfied that there are no matters raised within this report that are not being appropriately considered by the Council.

Performance against other local authorities

Audit Scotland complete an annual analysis of all 32 local authorities based on the unaudited financial statements against a series of measures. Our review noted that performance against other local authorities was generally in the middle of the range but there were some areas the Council were considered as an outlier.

These included:

- Inverclyde Council has the highest level of usable revenue reserves (earmarked and free) as a percentage of net revenue in Scotland at 31 March 2016.
- Top quartile for capital expenditure funded directly from the general fund.
- The average cost of exit packages in 2015/16 was in the top quartile but this is dependent on the staff mix of those made redundant.
- Fourth lowest general government grant on the Comprehensive Income and Expenditure Accounts (CIES) compared with the 2016 order.

The most notable point is the Council's level of reserves. The Council has an approved reserves strategy and has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council.

Workforce Planning

As part of our wider Code work during the year we were required to complete a return on Workforce Planning for the Council. This took the form of a follow-up to the November 2013 report published by Audit Scotland. A number of good practice areas were identified in the report. Many of these, and more, have already been incorporated into the Council's arrangements such as:

- a three year Organisational Development Strategy 2013-2016 in place with the 2017-20 Strategy being presented to the Policy and Resources Committee in September 2016
- a Joint Budget Group (JBG) made up of the Council's Corporate Management Team (CMT) and the four main trade unions. The JBG discusses the employee impacts arising from budget decisions and ensures that skill requirements are fully considered
- formal liaison arrangements with the trade union on workforce objectives
- occupational health service available to all and staff surveys undertaken.

From our work we identified minor areas the Council may wish to consider including:

- ensuring that all services have workforce plans
- improving succession planning for the short, medium and longer term – succession planning is currently a work in progress as part of the production of the 2017-2020 workforce plan.

[Refer to Action Plan point 5](#)

5. Governance and transparency



Governance and transparency

Annual Governance Statement

The Council conducted a review of effectiveness of the governance framework and the system of internal control to inform the Annual Governance Statement (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 included within the statement including:

- on-going work and action plan being progressed to ensure that all services comply with the corporate complaints procedure
- updating of key governance documentation and fraud policy to take account of organisational changes
- the AGS also summarises other areas for improvement including updating the Organisational Development Strategy, corporate document management, Member training and development and formalising role and relationship with the Integration Joint Board

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 areas for further development.

Appointment of new Chief Executive

The Council's current Chief Executive, John Mundell OBE, will retire from the Council's service on 19 September 2016.

The approved Council policy is that the Chief Executive is appointed by all Members of the Council. After the conclusion of its selection process, the Council, at its meeting on 25 August 2016 appointed Aubrey Fawcett, as the new Chief Executive. He has been the Council's Corporate Director for Environment, Regeneration and Resources since 2006 and the Chief Executive of urban regeneration company Riverside Inverclyde since 2013.

Internal Audit

The Council has an in-house Internal Audit function and they 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.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2015-16, they issued the following opinion:

"On the basis of Internal Audit work carried out in 2015/16, 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."

No limited assurance reports were issued in the year.

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 2015/16.

Overall Internal Audit have completed their plan for 2015/16 as agreed with the Audit Committee and have provided detailed regular updates to Committee.

A number of action plans were agreed in respect of Internal Audit reports in 2015/16. Of the 52 actions agreed, 29 (83%) out of the 35 due by the 30 June 2016 had been fully implemented. All actions are subject to on-going follow up by Internal Audit and progress is regularly reported to the Corporate Management Team and the Audit Committee.

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, Greenock Ocean Terminal and Inverkip Power Station development. 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.

The Council is currently planning on submitting the Outline Business Case for both Inverkip and Greenock Ocean Terminal in the spring of 2017.

Governance arrangements have been established with a Joint Committee, Cabinet and Chief Executive's group now in place with agreed roles and remits with these arrangements supported by a range of officer groups covering Economics, Finance, Legal and Procurement and Transport. As part of the Assurance Framework a 'Programme Management Office' has been established to support the Cabinet and the delivery of the City Deal. Glasgow City Council's Internal Auditor's reported that key controls are in place and generally operating effectively for the governance structure of the City Deal. Most of the corporate governance arrangements are in place such as documented roles and responsibilities, meetings are taking place as scheduled, all member authorities are represented, and papers are made available in advance. Some recommendations have been made to strengthen existing practices and controls.

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.

Audit Scotland published a National Fraud Initiative (NFI) report in June 2016. Key findings were:

- since last reported in the June 2014 fraud and error outcomes valued at £16.8 million have been recorded and the cumulative outcome is now £110.6 million for Scotland and £1.39 billion for the UK.
- the 2014/15 review included 104 Scottish bodies across three sectors, with 585 datasets submitted generating 347,715 data matches for further investigation.
- There are 2,522 investigations in progress and action being taken to recover £4.2 million of overpayments.

Our enquiries of management and the Council's internal audit confirmed that as part of the 2014/15 exercise two frauds and a further 13 errors had been identified with £15,720 being recovered by the Council. In addition 88 council tax single person discounts have been cancelled and the Council is currently recovering repayments of £25,744.

The Council has recently established a Corporate Fraud Team and in 2016/17 they will update fraud policies and procedures and implement fraud awareness training.

2016/17 National Fraud Initiative (NFI)

The 2016/17 process will shortly be commencing, with data submission between October and December 2016 and matches being made available to the Council for investigation from late January 2017. Key changes for the 2016/17 return include:

- Council tax reduction scheme data is an additional dataset required for the NFI 2016/17 exercise
- Housing waiting list data is an additional dataset required for the 2016/17 exercise
- Council tax and electoral register data is now required the same year as the main exercise, but on a slightly different timescale.

Within the Council responsibility for NFI has now moved to the Chief Internal Auditor from Revenues and Customer Services.

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. We have no concerns about the arrangements currently in place.

How those charged with governance get their assurances from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Council and Audit Committee gains assurance over management processes and arrangements. There are various ways of doing this but we agreed with the Chief Financial Officer that for 2015/16 this would be done as a formal response to questions raised by us around:

- the risk of material misstatements in the accounts
- potential for mis-reporting
- fraud risks and any known frauds
- compliance with laws and regulations
- appropriateness of adopting a going concern basis in preparing the 2015/16 accounts.

The Audit Committee formally considered and approved a response at its meeting on 19 April 2016. The benefit of this approach is that it clearly documents how Members gain assurances from management and further strengthens the Council's governance arrangements. This process is useful in reminding Members where they get their assurances from but will also be beneficial for any new Members and provides the Council with a good starting point to respond to these type of questions from its new auditors for 2016/17.

Service Level Agreement (SLA) with Inverclyde Joint Integration Board

Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016 when it took on formal delegated responsibility for the delivery and planning of local health and social care services. The Annual Governance Statements has an action for the Council to agree its role and relationship with the Inverclyde Joint Integration Board (IJB). As part of this there is a need for the Council to

ensure it agrees Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed.

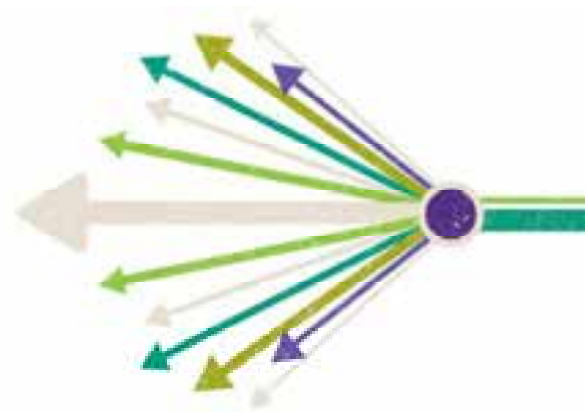
Refer to Action Plan point 6

Related Party Transactions

The Council has a clear system in place for Members to declare interests but there was no formal system for senior officer declarations. As part of the 2015/16 accounts audit we agreed that a system would be put in place for senior officers (Chief Executive, the three Corporate Directors and the two statutory officers). This involved the six officers completing a return, which included various questions, and declaring any relevant interests. These were then considered by management as to whether any declarations needed to be made in the final version of the 2015/16 accounts. Three further disclosures were made in the 2015/16 accounts in respect of Greenock Arts Guild Ltd (the Beacon Arts Centre), John Watt Dock LLP and Inverclyde Renovations Limited.

Our view is that the introduction of this system for senior officer declarations is a further strengthening of the Council's governance arrangements. It allows the Council to easily demonstrate what has been declared by senior officers and the Council's judgement as to whether there is a related party to be disclosed or not. Documenting judgements of when not to disclose is as equally important as any that are disclosed. The system put in place for 2015/16 would be enhanced if was extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards.

Refer to Action Plan point 7



6. Best value and value for money



Value for Money

Single Outcome Agreement (SOA)

The Council has a clear vision which is 'Getting it right for every Child, Citizen and Community' to ensure that they are: Safe, Healthy, Achieving, Nurtured, Active, Respected and responsible and Included'. The Council has agreed that the Single Outcome Agreement will act as the Community Plan for the Inverclyde area. The SOA is the high level strategic partnership document setting out the vision and direction for the Inverclyde area, as agreed by all the Inverclyde Alliance partner organisations. The Alliance Board monitors progress against the SOA outcomes for the seven outcome delivery groups and receives regular reports as to progress. There are seven outcome areas:

- Repopulation
- Successful Communities
- Economic Regeneration / Employability
- Inequalities
- Alcohol Misuse
- Best Start in Life
- Environment

The monitoring report as at the end of March 2016 identified 54 of 56 actions as green rated and on track to deliver and 2 actions as amber rated and requiring attention.

In addition to the monitoring and delivery of the main SOA agreement, the Alliance Board also has an improvement plan in place. This was originally put in place in 2012 and has been subject to self assessment and review on a regular basis. The action plan shows a high level of self-awareness and transparency amongst the Alliance partners and a determination to deliver continual improvement. The improvement plan is focused around five areas; Community engagement, empowerment and asset based approaches; Tackling Inequalities; Joint resourcing and planning; Leadership and Development of the SOA. Good progress is being made in delivering the actions stated in the plan.

The outcome targets in the SOA are based on evidence of the key issues and challenges for the Inverclyde area and have been developed through extensive community engagement. The SOA goals are clearly linked to the Council's vision and provide a strong link in terms of both clear goals to deliver the Council's vision whilst recognising the contribution of other partner organisations to meeting the shared outcomes.

The Council and partners have a strategic planning framework in place that reflects the requirements of the Scottish Government's national outcomes. The Council's day to day activities are linked to the strategy and vision through the Corporate Directorate Improvement Plans (CDIP's). These are reviewed annually. Feedback from the Citizens Panel is also reflected back to service departments in order to identify any service improvement opportunities.

At the Council meeting on 2 June 2016 the Chief Financial Officer (CFO) presented a report from the Accounts Commission – 'An Overview of Local Government in Scotland'. The report included a self-assessment of the Council's position against the content of the report. The Council compared well as regards the arrangements it has in place to respond to the forthcoming challenges. Most notably are its financial plans and strategy, its workforce planning and organisational development strategy; and its track record in delivering alternative delivery models. The report reflects the challenges to Scottish Local Authorities from service demand and demographic factors many of which impact on Inverclyde. The self assessment includes an action plan for delivery of change in a small number of areas.

The Council has set a clear vision and priorities and shared these with partners but, as with most local authorities, delivery will be challenging in the current economic and financial environment with increasing demand for services and a declining population being real risks.

Shared Services

The Council has previously discussed the possibility of exploring shared service opportunities with neighbouring authorities. In the increasingly challenging financial environment and with the protection of key service areas such as education and the integrated health and social care budgets the challenges are even more acute for a number of other service areas. In this context the Chief Executive prepared a report to the Council at the end of June 2016 proposing approval of a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils.

The report sets out the governance arrangements and a range of opportunities for exploring greater efficiencies through the use of more effective service delivery models and through greater collaboration. It is clear from the report that whilst more efficient use of resources are a driving factor there is also a need to transform services to provide better outcomes for residents and better access to more specialist services on a wider footprint whilst enabling access to a greater pool of expertise. The report sets out the potential for sharing services in the following areas:

- Roads and Transportation
- Fleet Management and Maintenance
- Grounds Maintenance, Parks, Open Spaces, Cemeteries and Crematoriums, (and Street Cleansing and Litter); and
- Environmental Services – Refuse Collection, Recycling and Waste Collection.

A desk top study as to the potential opportunities in these areas has been undertaken which is mindful of the on-going national and regional level discussions about a shared service proposal for Roads and Transportation. Any preparatory work between the three councils can only advantageous in broader discussions. The combined capital and revenue budgets for these services across the three authorities are £101.7m and it therefore offers the potential for significant re-configuration to support the aims of better, more sustainable services within the financial constraints. The Council has put in place a Memorandum of Understanding with East and West Dunbartonshire to progress this agenda. There is a detailed governance structure outlined in the report to underpin the agreement and a timeline up to April 2017 agreed for possible implementation.

In addition to the above developments the Council has a history of looking at alternative delivery models and is an area where it has continued to develop its arrangements over the last five years. The Council has 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 in 2013/14 that the Council was meeting either the basic or better practices. As part of the Governance of External Organisations Annual Report in November 2014, an action plan was agreed to develop advanced practice to help strengthen the governance framework in place. In 2014/15 the Council started the process of facilitating risk registers for arms-length organisations.

Our view is that the Council has recognised the need to enhance its governance arrangements so that they include partners / outside bodies and has shown that it needs to keep these arrangements under review to ensure governance arrangements remain appropriate. These principles will stand it in good stead as it looks to further develop shared services and other options.

Community Engagement

This is an area of effectiveness for the Council and recognises its strong place in the community and the relationships with its partners organisations. The local community engagement strategy is enshrined in the Inverclyde Alliance Community Engagement Strategy. This sets out the approach for engaging with stakeholders. There is a wide range of mechanisms in place for engaging with stakeholders from the broad consultation on the Vision and Corporate priorities to service specific consultations which are co-ordinated through the Council's partners and existing community planning networks. The programme is co-ordinated through a commissioned facilitator, Your Voice. A range of options are used to obtain feedback via established community groups and various service based engagements.

Consultation with the public takes place at various levels. A Citizens Panel is used to obtain feedback on Council performance and on specific issues. This will be used to obtain views on the Local Outcome improvement Plan in 2017. The panel has been running since 2007 and comprises 1000 local residents with the membership being rotated by a third each year. The survey in 2015 received a 66% feedback response. Last year's survey asked specific questions about the Council's overall reputation and enquired about service specific areas such as recycling and sustainability, dementia services and drugs problems in the area. In addition the Council does specific service consultations and wide consultation on the budget and financial strategy.

The Council and partners have continually responded to customer feedback and designed services and opening times/locations to reflect customer need. For example, the Council with Riverside Clyde Homes have used this to assist residents and have implemented visits to tenants homes to give them financial advice and assistance in the light of welfare reforms and other changes.

The Council also runs a staff survey every three years. The most recent was reported upon in November 2015 and showed 80 per cent of staff expressing satisfaction with their job. Overall it is a positive picture with any issues being contained in the revised Organisational Development strategy 2017-20.

Health and Social Care Integration Joint Board

For many years this has been recognised as a real strength area for the Council. It has been reported in previous Local Scrutiny Plans (LSPs) that the Council had a strong Community Health and Care Partnership (CHCP) and this provided a solid platform for the integration of health and social care. The Council benefitted from this during the early set up stages of the new arrangements. The Inverclyde Integration Joint Board (IJB) approved its Strategic Plan 2016-2019 on 15 March 2016 which sets out its intentions and priorities. The previous arrangements were supportive of engagement and participation and the principles of co-production and this ethos has been maintained into the IJB. For 2015-16 Inverclyde HSCP had a combined revenue budget from the Council and the Health Board of £120m.

The plan is based around five core themes:

- Employability and meaningful activity
- Recovery and support to live independently
- Early intervention, prevention and reablement
- Support for families
- Inclusion and empowerment

These themes are to be used to guide commissioning decisions in order to assist delivery with the nine national outcomes central to the Act. The IJB is using a wealth of data to enable and support its approach to evidence based commissioning. This is reflected in its Strategic Needs Assessment. The strategy reflects the importance of partnership working across the range of statutory, independent, voluntary and third sector organisations which all contribute to making Inverclyde a safe, secure and healthier place to live.

The IJB is involved in a number of major projects including the New Ways of Working pilot put in place to respond to the increasing workload and workforce shortages in General Practice, and, crucially the strategic review by the Health Board of Acute services.

The IJB received its interim budget from the Greater Glasgow and Clyde NHS Board on 20 June 2016 with an allocation for 2016-17 set at £76.313m (including £4.449m for Social Care). The IJB has in place an established system of performance management and reporting on outcomes. Further developments are expected in this area with development of a national performance reporting format and a greater emphasis on delivering outcomes.

Performance Management Framework

The Council has put in place a Strategic Planning and Performance Management Framework (SPPMF) to ensure the effective delivery of corporate and service outcomes. This process is underpinned by the principles of robust self-evaluation and the Public Services Improvement Framework (PSIF). There is clearly a lot of work going on in trying to improve service review and self-evaluation including:

- enhancing self-assessment guidelines and processes regarding competitiveness and challenge ;
- Providing self-evaluation training and guidance;
- conducting Public Service Improvement Framework (PSIF) assessments across a wide range of corporate and service areas;
- Review of these assessments by CMT;
- Introduction of a post project evaluation procedure from March 2016.

A report on the SOLACE performance indicators is presented to CMT and to members and where appropriate improvement plans are put in place and included in the relevant Corporate Directorate Improvement Plans (CDIP). For example, the report for Corporate Services to Policy and Resources Committee on 17 November 2015, showed that for the CDIPs there were 64 actions of which 27 were complete, 32 on track for completion and only 5 showed slight slippage. An example of recognising the need to improve relates to road maintenance. The Council acknowledged that improvement in roads maintenance was required and developed a fully funded, long term Road Asset Management Plan. The Council have invested £10.1 million through the Road Asset Management Plan since 2012. A further investment of £18.210 million is planned for the three year period 2015-2018. The broader discussions about shared services also reflect the continuing challenge and desire for continual improvement and better outcomes.

There is regular review of performance data by the Corporate Management Team with reporting to members being on a BRAG rated basis. The Council does challenge its own performance and there is a clear link between underperforming areas or amber rated areas and inclusion in the relevant Corporate Directorate Improvement Plans (CDIP). Actions identified show a clear link to plans of how to address underperformance. This approach has delivered improved performance for the Council over the last five years and there is evidence of change happening as a result of performance management interventions.

Statutory Performance Indicators / Local Government Benchmarking Framework

As required by the Statutory Performance Indicators (SPIs) Direction 2014 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 figures for the 2015-16 Local Government Benchmarking Framework (LGBF) are still being finalised and are not yet available. As a result the commentary below is based on the highlights from the 2014-15 performance data which was released in early 2016. It is worth reiterating the background to the data. The Society of Local Authority Chief Executives (SOLACE) 'Improving Local Government' initiative was developed to:

- support SOLACE to drive improvement in local government benchmarking
- develop a comparative performance support framework for Scottish local authorities
- support councils to target transformational change in area of greatest impact – efficiency, costs, productivity and outcomes
- focus on the 'big ticket' areas of spend, plus corporate services.

The key to benchmarking is the collection of comparable data across the 32 Scottish council which focuses on the cost information related to service delivery for major service areas and corporate services. As with any benchmarking data it is vital to remember that there will always be legitimate variations in performance due to local policy decisions, demographic profile, social and economic conditions and other local factors. In addition a council's policies and priorities, its structure and business processes, together with service user expectations will have an impact. As a result the performance achievements of local authorities will vary for valid reasons. The data does however allow an opportunity for challenge and comparison and in this sense is useful in the context of the wider performance management and monitoring framework outlined above. The Council reported the detail of its performance to the Policy and Resources Committee on 22 March 2016. This report gives a detailed analysis for each indicator.

The LGBF indicators are grouped across seven areas Children's Services; Corporate Services; Adult Social Care; Culture and Leisure services; Environmental Services; Corporate assets and Economic Development.

In 2014/15 Inverclyde Council ranked in the top two quartiles for just under half (49%) of indicators, while 28.6 % were in the third quartile and less than a quarter (22.4%) were in the fourth quartile compared against other Scottish local authorities. By comparison in 2013/14 55.6% of indicators were in the top two quartiles and 44.4 % in the bottom two quartiles. Like other local authorities, Inverclyde's performance in 2014/15 varies across the spectrum of indicators this can be related to a variety of local factors including deprivation levels, investment and policy decisions and population density.

The highlights of the various indicators show that overall the cost per pre-school place has increased in 2014-15 to the most expensive in Scotland, cost per primary school pupil stayed steady and then rose in 2014/15, the number of pupils achieving 5+ Awards at level 6 increased by 7.9% in 2014-15, satisfaction with local schools improved moving performance into the top quartile.

Corporate services includes nine indicators the highlights of which show reductions in the corporate costs of collecting council tax by £2.32 per dwelling; improved council tax collection rates; improvement to reductions in the gender pay gap; the number of days lost through sickness for teachers reduced in year and the number of days lost due to sickness for all other employees also fell in 2014/15.

Adult Social Care comprises five indicators and has shown an increase in the percentage of people with intensive needs who are being cared for at home whilst the home care costs for over 65s has fallen nationally by 7.2% in the past five years and in Inverclyde are currently the lowest in Scotland. Self directed support and personalised payments have increased nationally .In Inverclyde however this is an area that needs to be developed. On a national basis satisfaction with social care/ social work has decreased year on year since 2010/11. In Inverclyde whilst there has been a reduction in satisfaction it still remains above the national average.

Culture and Leisure services contain eight indicators which across Scotland show a picture of substantial increases in visitor numbers for sports, libraries and museums against a backdrop of even more significant reducing expenditure on these services. Cost per attendance at leisure facilities in Inverclyde is around half of the national average and in the top quartile. Whilst satisfaction with cultural and leisure services is generally reducing nationally there are some positive indicators within Inverclyde that show the opposite to this trend. in leisure facilities and parks and open spaces.

Environmental services comprises 17 indicators and shows an overall 14 per cent reduction in expenditure against a positive performance across the country in maintaining or improving performance levels relating to recycling, street cleanliness, roads condition and satisfaction. Inverclyde rates as number one in recycling and 14 per cent above the national average.

Corporate assets has two indicators related to buildings both of which are comfortably above the Scottish average.

Economic Development contains one indicator for which Inverclyde is the top performer for assisting unemployed people into work.

Whilst overall performance varies across the range of indicators there is a clear relationship between policy and investment decisions and performance in a number of areas. The Council needs to continue to use the data to enhance its performance monitoring and scrutiny arrangements.

Audit Scotland – Audit of housing benefits: Risk assessment report

This risk assessment was completed by Audit Scotland as part of their housing benefit risk assessment programme but was not a full audit. The risk assessment considered the effectiveness of the Council's benefit service in meeting national and local priorities, business planning and reporting and delivering outcomes.

Information for the risk assessment was gathered from a range of sources including:

- a self-assessment, supporting evidence, and updated action plan provided by the Council
- Department for Work and Pensions (DWP) indicators and other performance measures
- scrutiny of internal and external audit reports and discussions with us as the external auditor
- discussions with senior officers within the Council during the on-site visit in March 2016

A risk assessment was previously carried out in early 2012 and in March 2012 Audit Scotland reported 12 risks to the continuous improvement to the Council's benefits service.

In February 2016, the Council submitted a self assessment, supporting evidence and an updated action.

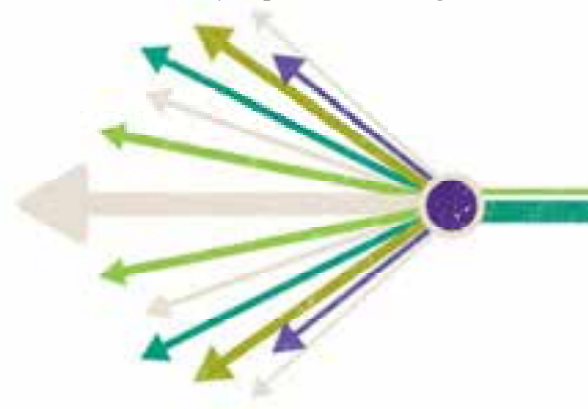
In May 2016 Audit Scotland reported "Of the 12 risks identified, the Council has made excellent progress by completing 10 of the risks by October 2013". In doing so the Council was seen as making a very positive contribution to the delivery of the benefits service including:

- developing and implementing a service level agreement between the benefits service and customer services defining roles and responsibilities, performance targets, monitoring and reporting arrangements
- undertaking a customer survey and using the results to change customer service delivery with plans for another survey in 2016/17
- increasing the cash collection target for the recovery of benefit overpayments from £5,000 to £10,000 per month, and on average, exceeding this by £2,000 a month between April 2015 and February 2016.

The Council has demonstrated its awareness of what constitutes an effective, efficient and secure benefits service. However, there are still two risks outstanding that the Council needs to address. This include:

- performance not being reported against all aspects of the service, particularly the amount of in-year debt recovered and against all debt outstanding
- recording and analysing the outcome of interventions in terms of value of overpayments and underpayments and using this to evaluate each intervention campaign and using this in setting a forward strategy.

The Council put together an action plan to address the two outstanding issues in June 2016. This was reviewed by Audit Scotland and the Assistant Auditor General confirmed on 21 June 2016 that proposed actions would make a positive contribution to the continuous improvement of the benefits service and that no further scrutiny required at this stage.



Appendices

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Appendix A: Identified misstatements

We are required to report to those charged with Governance any identified adjustments, over and above our de minimus materiality level of £0.25 million. These have been shown in the table below and we have identified those which have been reflected in the final version of the Financial Statements and those which have not.

Adjustment	CIES £'000	Balance sheet £'000	Usable Reserves £'000	Unusable Reserves £'000	Reason for not adjusting
Adjusted					
<p>Our high level review of the fixed asset register (FAR) and valuation report identified a small number of inconsistencies, particularly in relation to schools, between individual asset values in the FAR and the valuation report. On further investigation it was confirmed that new asset valuations had not always been correctly allocated over all of an assets components meaning that the asset value was overstated and there was some double counted of assets in the FAR. This meant that the total value of assets in the FAR was overstated and therefore the Property, Plant and Equipment balance in the accounts was overstated. The statements were amended as follows:</p> <p>CIES Net Cost of Services Expenditure (Surplus)/Deficit on Revaluation of non-current assets</p> <p>Balance Sheet / Reserves Property, Plant and Equipment Revaluation Reserve CAA</p>	<p>8,490 7,579</p>	<p>(16,069)</p>		<p>(7,759) (8,490)</p>	N/A
<p>Testing identified mispostings of revaluations between the Revaluation Reserve and the Capital Adjustment Account. This was mainly due to crediting upward revaluations to the Revaluation Reserve when they should have been posted to the CIES as the asset had been previously impaired through the CIES. The statements were amended as follows:</p> <p>CIES Net Cost of Services Expenditure (Surplus)/Deficit on Revaluation of non-current assets</p> <p>Balance Sheet / Reserves Revaluation Reserve CAA</p>	<p>(2,352) 2,352</p>			<p>(2,352) 2,352</p>	N/A
Overall Impact (carried forward)	16,069	(16,069)	0	(16,069)	

Adjustment	CIES £'000	Balance sheet £'000	Usable Reserves £'000	Unusable Reserve £'000	Reason for not adjusting
Adjusted					
Overall Impact (brought forward)	16,069	(16,069)	0	(16,069)	
Management made a number of adjustments following the production of the draft statements which, although below our triviality level, are reported here for completeness.					N/A
CIES					
Net Cost of Services Expenditure	60				
Financing and Investment Income and Expenditure	3				
Balance Sheet					
Long Term Debtors		119			
Short Term Debtors		(100)			
Short Term Creditors		(82)			
Reserves					
Earmarked Reserves			(16)		
Unallocated Reserves			(10)		
Insurance Fund			(37)		
Overall Impact	16,132	(16,132)	(63)	(16,069)	
	(NOTE 1)		(NOTE 1)		
<p>NOTE 1 - Although the additional charge in the Comprehensive Income and Expenditure Statement (CIES) is shown in the table above as £16,132,000 the amount in respect of the revaluation issue of £16,069,000 is reversed out through the Movement in Reserves Statement (MIRS) so that the net impact on usable reserves is only £63,000. This reversal is required by the Local Authority Code of Accounting Practice and ensures that revaluation changes do not impact on usable reserves and therefore council tax.</p> <p>The Movement in Reserves Statement and the Cash Flow Statement were also amended to reflect the adjustments to the Comprehensive Income and Expenditure Account and Balance Sheet shown above.</p>					
Unadjusted					
There are no unadjusted errors.					

Appendix B: Misclassification and disclosure changes

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

	Adjustment Type	Account balance	Impact upon the financial statement
1	Disclosure	Remuneration Report Note 7 – Councillors' Remuneration	Minor adjustments were made to the disclosure of members' expenses which increased the total salaries and expenses by £92 to £392,716.
2	Disclosure	Remuneration Report Note 9 – Exit Packages of Employees	The exit package note did not include the exit package in respect of the Corporate Director Education, Communities & Organisational Development. The note was amended to increase the number of other departures agreed in the £20,001 - £40,000 banding from 3 to 4 and the total cost in this banding from £60,277 to £99,269.
3	Disclosure	Remuneration Report Note 9 – Exit Packages of Employees	An exit package agreed in year was incorrectly discounted. This was corrected and had the effect of increasing exit packages in the £100,000 - £150,000 band by £6,233 to £468,420. As a result of this, and the error noted above, the total cost of exit packages increased from £1,353,205 to £1,398,430.
4	Disclosure	Note 6 – External Audit Fees	The note was amended to reflect the audit fee for 2015/16 of £262,095 as reported in our audit plan.
5	Misclassification	Note 7 - Amounts Reported for Resource Allocation Decisions	Fees charges and other services income for the Policy and Resources Committee included £8.8 million which related to recharges to other Committees. The note was adjusted to reduce P&R income and expenditure by £8.8 million. The note was also adjusted to reflect amendments made to the CIES. The overall effect was that Committee net expenditure reduced by £60,000.
6	Disclosure	Note 8 – Property Plant and Equipment	Amendments were made to the Property, Plant and Equipment note to reflect the material adjustment of £16.069 million as shown in Appendix A.
7	Misclassification	Note 8 – Property Plant and Equipment	Writeback of depreciation for 2015/16 was incorrectly shown in the cost section of the Movement on Balances in Note 8. An adjustment was made to transfer depreciation writeback of £26,529,000 (split as £25,519,000 Revaluation Reserve; £1,009,000 CIES) from the cost section to the depreciation section of the Note. This adjustment had no impact on the net book value of property plant and equipment.
8	Misclassification	Note 8 – Property Plant and Equipment	The draft statements included an adjustment in Note 8 to correct the treatment of depreciation writeback in prior years. Writeback of depreciation in prior years was incorrectly shown in the cost section on the brought forward balances in Note 8. An adjustment was made by the Authority in the 2015/16 Movement on Balances note to transfer depreciation writeback of £183.2 million from the cost section to the depreciation section of the Note. An audit adjustment was made to separately disclose this adjustment within the "Other reclassifications" line rather than including it within revaluations. This adjustment had no impact on the net book value of property plant and equipment.

	Adjustment Type	Account balance	Impact upon the financial statement
9	Disclosure	Note 8 – Property Plant and Equipment	The note on the revaluation programme was inconsistent with asset cost disclosed in the Movement of Balances table and with the history of valuations. This was revised to properly reflect the valuation history of the assets.
10	Disclosure	Note 20 - Leases	Finance leases were understated by £1,716,000 and the note was amended.
11	Disclosure	Note 21 - Financial Instruments	Cash balances of £38,489,000 were not included in the financial instruments note. As cash is a financial instrument, the note was amended to include cash balances.
12	Disclosure	Note 23 - Related Parties	The note was expanded to provide further narrative details on related parties and the Council's mechanisms for identifying related party transactions. The revised note identified further related party transactions including Greenock Arts Guild, John Watt Dock LLP, Inverclyde Integration Joint Board, Inverclyde Community Development Trust and River Clyde Homes.
13	Misclassification	Common Good Fund – Note 1 Property, Plant and Equipment	The note was amended to transfer writeback of depreciation in respect of prior years of £461,000 from the cost section to the depreciation section of the note.
14	Disclosure	Group Financial Statements	A number of changes were made to the Group Accounts including: <ul style="list-style-type: none"> • amending the 2015/16 opening balances to ensure that they were the same as the audited closing balances for 2014/15 • amendments reflecting changes between the draft and audited accounts of the associates • amendments due to the changes made to the Council's accounts (single entity) • impact of amendments was that the Council 'Share of Associates Usable Reserves' increased from £2,523,000 to £3,820,000 and the Council's 'Share of Associates Unusable Reserves' decrease from £7,577,000 to £6,260,000.
15	Disclosure	Note 30 – Combining Entities	An additional section entitled "Non-Material Interest in Other Entities" was added to the Note. This provided details of the Council's interests in other organisations which were not considered material and therefore not included in the group financial statements.
16	Disclosure	Various	Various changes were made to supporting notes to improve presentation and ensure consistency.

Appendix C: Action plan

Issue and risk	Priority	Agreed action
<p>1 Leavers still being paid</p> <p>During our testing of payroll transactions we identified one case where the Council continued to pay an employee who had left the Council leading to an overpayment of £2,106.28. The explanation given was that this overpayment had arisen because Human Resources (HR) were not notified by the employing department that the employee had left the Council. Testing of all leavers in 2015/16 who had received payments more than 30 days after their date of leaving identified four further employees had been overpaid due to late notification from the employing department. Overpaid monies have been recovered in all cases.</p> <p>Risk</p> <p>The Council fails to identify that employees have left and continues to pay them leading to overpayments that have to be reclaimed.</p>	<p>High</p>	<p>The Council should review its arrangements for promptly notifying HR about leavers so that the payroll department can action the changes. Given that one overpayment was only identified when the employee called the Council the Council should consider a periodic validation process where budget managers confirm that employees are still employed by the Council.</p> <p>Management response:</p> <p>The Council will review arrangements for notifying HR/Payroll about leavers and will examine the extent to which a periodic validation exercise could be undertaken by budget managers to ensure employees are still employed</p> <p>HR Manager (Operations) by March 2017</p>
<p>2 Management of the Fixed Asset Register</p> <p>Our work on the fixed asset register (FAR) identified some inconsistencies between the asset register and the valuation report which had not been resolved. We identified a further number of issues including the fact that the wrong enhancement amount had been applied to three assets and that the Council had identified one asset that was not included on the FAR.</p> <p>Risk</p> <p>That errors occur when the fixed asset register is being updated and that these are not identified.</p>	<p>Medium</p>	<p>The Council should introduced secondary checks on the fixed asset register so that any errors on areas such as enhancements applied, revaluations and impairments are identified prior to the production of the draft accounts.</p> <p>Management response:</p> <p>The Finance Manager (Environment & Technical) will examine the extent to which secondary checks can be implemented in this and other areas associated with the accounts in the context of the limited resources within the team.</p> <p>Finance Manager (Environment & Technical) by March 2017</p>
<p>3 Managing the capital programme</p> <p>There has been clear progress made in 2015/16 in delivering the 2015/16 capital programme in terms of actively offsetting slippage by acceleration of other projects. However, the 2017/18 capital programme of £48.555 million is some 60% bigger than the 2015/16 budget and includes £21.983 million of expenditure on schools new build, extensions and refurbishment.</p> <p>Risk</p> <p>The risk that the Council will continue to experience internal slippage on the capital programme, and with increased levels of future capital expenditure, be unable to accelerate other projects to fill the gap.</p>	<p>Medium</p>	<p>The Council should review their available resource and project management capability in light of extensive capital expenditure plans established for 2016/17 and more notably 2017/18. The Council will need to ensure that sufficient resources are in place to deliver the 2017/18 capital programme and to actively respond to minimise the impact of any slippage.</p> <p>Management response:</p> <p>The Council has an established process for reviewing the next 12-24 month Capital Programme each January and will continue this in January 2017. This review takes into account resources required for delivery .</p> <p>Corporate Director (Environment , Regeneration & Resources) by February 2017</p>

Appendix C: Action plan

Issue and risk	Priority	Agreed action
<p>4 Common Good Fund</p> <p>The Common Good Fund usable revenue reserve has decreased significantly in the last two years. At 31 March 2016 it was only £14,000 and below the Council's recommended minimum level of £100,000.</p> <p>Risk</p> <p>That the Common Good Fund revenue reserves goes into deficit in 2016/17.</p>	<p>Medium</p>	<p>The Common Good Fund will need to be closely monitored during 2016/17 and appropriate action take to ensure the reserve is not in a deficit position.</p> <p>Management response:</p> <p>The Common Good Budget is reviewed each Committee cycle whilst the Budget for the next 2 Years is approved each February. The sustainability of the Fund is a key requirement when developing budget proposals.</p> <p>Chief Financial Officer by March 2017</p>
<p>5 Workforce Planning</p> <p>Our review of workforce planning following the Audit Scotland return identified some areas for further consideration by Council officers:</p> <ul style="list-style-type: none"> ensuring that all services have workforce plans improving succession planning for the short, medium and longer term – succession planning is currently a work in progress as part of the production of the 2017-2020 workforce plan. <p>Risk</p> <p>Workforce planning at the Council may not be fully reflective of recommended practices.</p>	<p>Low</p>	<p>We recommend that management review the main points raised and make amendments as required.</p> <p>Management response:</p> <p>Each Directorate will receive a quarterly Workforce Activity and Information report which identifies key workforce planning actions. The Council's Corporate Workforce Planning and Development group play a key role in ensuring that workforce planning is an integral part of their service planning and improvement process. A Succession Planning Programme has been developed and piloted with a view to rolling this out wider across the Council as part of the People and Organisational Development Strategy 2017/20. Management will review the points raised and implement any necessary changes.</p> <p>Head of OD, HR & Communications by March 2017</p>
<p>6 Service Level Agreement (SLA) with Inverclyde Joint Integration Board</p> <p>Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016 when it took on formal delegated responsibility for the delivery and planning of local health and social care services. Given the increase role of the IJB from 1 April 2016 it would be sensible for the Council and the IJB to have formal SLAs to agree resource input and costs.</p> <p>Risk</p> <p>Without an SLA the risk is that there will be a lack of clarity over agreed support and this could have resourcing and financial implications.</p>	<p>Medium</p>	<p>The Council should agree Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed.</p> <p>Management response:</p> <p>Officers are progressing the development of SLAs to cover a number of functions which support the IJB. The intention is to complete this work by December 2016</p> <p>Head of Legal & Property Services/Chief Officer (Inverclyde IJB) by December 2016</p>

Issue and risk	Priority	Agreed action
<p>7 Related Party Transactions</p> <p>The Council has a clear system in place for Members to declare interests but there was no formal system for senior officer declarations. As part of the 2015/16 we agreed that a system would be put in place for senior officers (Chief Executive, and the three Corporate Directors and the two statutory officers) and that this would be extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards.</p> <p>Risk</p> <p>That senior officer may have needed to make declarations that should have been disclosed as related party transactions in the Council's account.</p>	<p>Medium</p>	<p>Extend the system for senior officer declarations, introduced as part of the 2015/16 accounts, to cover all service heads and any other senior staff involved in areas such as internal audit, procurement and contract awards.</p> <p>Management response:</p> <p>The process adopted for the 2015/16 Accounts will be reviewed and amended with proposals to be approved by the Corporate Management Team.</p> <p>Head of Legal and Property Services by March 2017</p>








Appendix D: Follow-up of prior year actions

Set out below is our follow up of the 2014/15 Annual Report to members recommendations.

Recommendation	Priority	Follow up
<p>1 Financial Strategy scenario planning 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.</p>	Medium	Implemented: When the 2016/2024 Financial Strategy was updated in early June 2016 this included the most likely position for 2017/20 being a £22.5 million funding gap but with best and worst case scenarios being between £13.1 million and £37.4 million. Scenario planning is useful for Members in helping them understand the wide spread of possible outcome and the future financial uncertainties that the Council is facing.
<p>2 Management Commentary in Accounts 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.</p>	Medium	Implemented: The 'Management Commentary' in the 2014/15 accounts simply commented upon the Council publishing performance indicators and provided a link to where this could be found. This improved in 2015/16 with the inclusion of bullet points to provide commentary on
<p>3 Non-Current assets note in accounts 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.</p>	Medium	Implemented: This adjustment to Note 8 on Property, Plant and Equipment has been made in the 2015/16 accounts. The accounts have been amended to show this adjustment in the line 'Other reclassifications' line and a narrative commentary explaining the change has been added as a footnote.
<p>4 Managing the capital programme 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.</p>	Medium	In progress: This will be an on-going issue for the Council. In 2015/16 there was slippage of £5.692 million (18.8%). This was more than offset by actions taken by Officers to actively offset slippage or as a result of acceleration of other projects. The net effect is that capital outturn exceeded the original capital programme by £0.898 million. This represents progress against historically high levels of capital slippage but will continue to be a challenge with a budgeted capital programme for 2017/18 of £48.555 million.
<p>5 Scrutiny of Integration Joint Board (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.</p>	Medium	In progress: The Council has undertaken a review of the potential for conflicts of interest as regards the relationships with IJB. This report is due for completion by the end of September and is scheduled to be presented to the Council on the 29 September 2016.

Appendix E: Compliance with statutory duties

We have reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014 and have monitored compliance against the key aspects below.

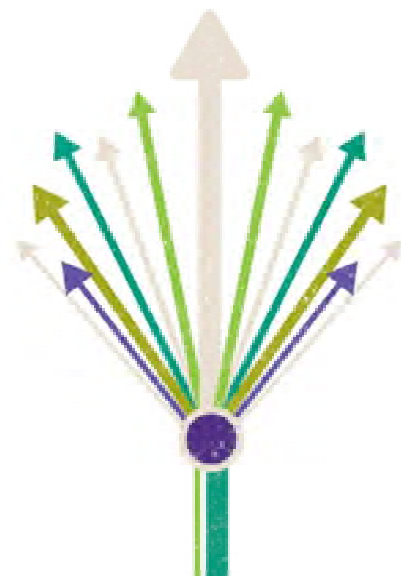
Aspect of the regulations	Compliance	Status
The Chief Financial Officer must ensure that the annual accounts give a true and fair view of the authority (and its group's) financial position and transactions.	Complied - signed off within unaudited accounts	
	On track - will sign off in final audited accounts.	
The Chief Financial Officer must certify and submit the annual accounts to the appointed external auditor no later than 30 June 2016.	Complied – submitted 29 June 2016.	
The Council must publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.	Complied – unaudited accounts are available on the website.	
The Council (or a committee whose remit includes audit or governance) must consider the unaudited accounts at a meeting by 31 August.	Complied – presented to Audit Committee on 21 June 2016.	
The Council must give public notice of the right of interested persons to inspect and object to its accounts.	Complied – public notice given.	
The Council (or a committee whose remit includes audit or governance) must aim to approve the audited annual accounts for signature no later than 30 September 2016.	On track - will be presented to Inverclyde Council meeting on 29 September 2016 for approval.	



Fully compliant at date of this report



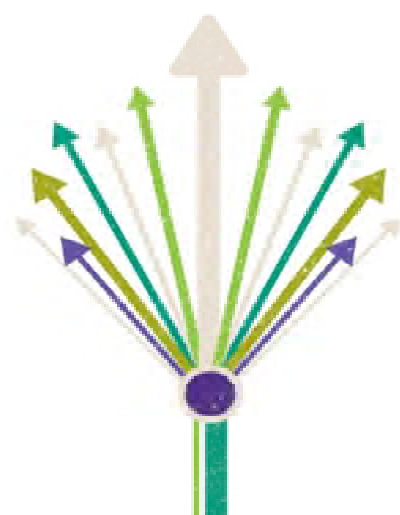
On track to comply



Appendix F: 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
<p>1 Written representations</p>	<ul style="list-style-type: none"> • A letter of representation has been requested from the Council • In particular, representations will be requested from management in respect of: <ul style="list-style-type: none"> – 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
<p>2 Disclosures</p>	<ul style="list-style-type: none"> • Our audit work identified no material omissions in the financial statements. We have proposed a number of amendments to improve compliance and disclosures (see appendix B) which the Council has reflected in the audited Statement of Accounts.
<p>3 Matters in relation to fraud</p>	<ul style="list-style-type: none"> • We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
<p>4 Matters in relation to laws and regulations</p>	<ul style="list-style-type: none"> • We are aware that in December 2015 the Court of Session found that Inverclyde Council had incorrectly awarded a contract for the provision of street lighting. The Court ruled that that the error made by the Council was not one of mis-designation. Inverclyde Council are to appeal the decision and the contract will remain in place until the outcome is known.
<p>5 Matters in relation to related parties</p>	<ul style="list-style-type: none"> • The related party transactions note has been updated to provide greater commentary and to include disclosures for Inverclyde Integration Joint Board. We have also recommended improvements to the system to help assess whether any related party disclosures are required for senior officers.
<p>6 Going Concern</p>	<ul style="list-style-type: none"> • We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



Appendix G - Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Inverclyde Council (including grant certification)	262,095	262,095
Lady Alice-Shaw Stewart Memorial Fund	800	800
Total audit fees	262,895	262,895

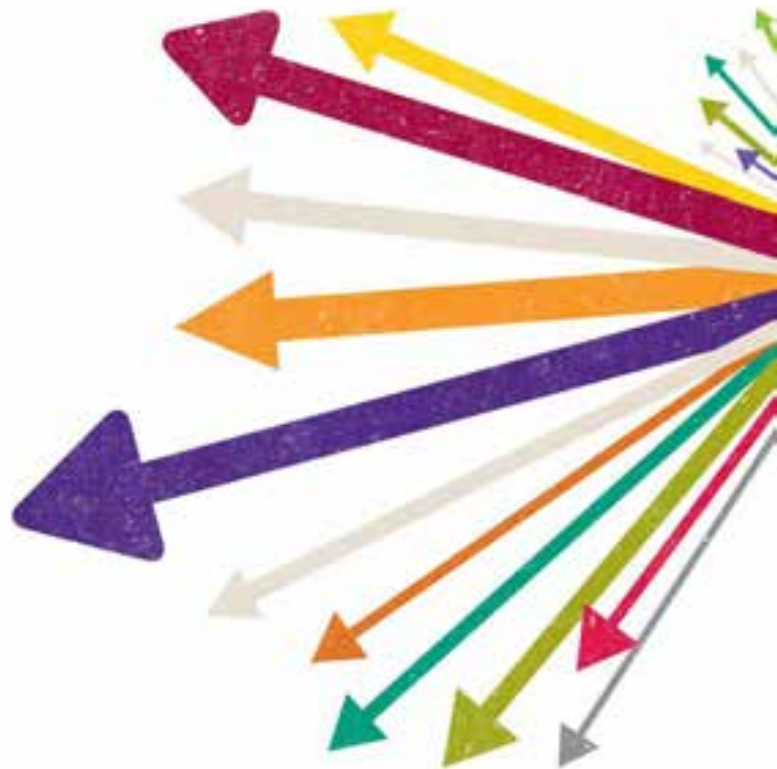
Fees for other services

Service	Fees £
None	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 H: Draft Independent Auditor's 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 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Council Tax Income Account, Non-domestic Rates Income 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 2015/16 (the 2015/16 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 Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial 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 council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group 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 2015/16 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

To be dated 2016

Appendix I: Draft Letter of Representation

Mr Michael Thomas
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

29 September 2016

Dear Mr Thomas

Inverclyde Council

Group Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the group financial statements of Inverclyde Council and its associate undertakings as shown in Appendix 1 of this letter, for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.

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

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

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

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

We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

Except as disclosed in the financial statements:

- a there are no unrecorded liabilities, actual or contingent;
- b none of the assets of the group or parent Council has been assigned, pledged or mortgaged; and
- c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits 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 post-employment benefits have been identified and properly accounted for.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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

We believe that the group and parent 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 group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

We have provided you with:

- a access to all information of which we are aware that is relevant to the preparation of the group and parent Council 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 group and parent Council from whom you determined it necessary to obtain audit evidence.

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

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

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

We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

- a management;
- b employees who have significant roles in internal control; or
- c others where the fraud could have a material effect on the group and parent Council financial statements.

We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.

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 the group and parent Council's financial statements.

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

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

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.

Management Commentary

The disclosures within the 'Management Commentary' fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council at its meeting on 29 September 2016.

Signed on behalf of the Council

Yours sincerely

Name: Alan Puckrin

Position: Chief Financial Officer.

Date: 29 September 2016

Appendix 1 – Associate undertakings for Group Accounts

- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Board
- Renfrewshire Valuation Joint Board
- Inverclyde Leisure
- Riverside Inverclyde



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