

Inverclyde Council

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Inverclyde Council and the Controller of Audit

November 2022

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Key messages

2021/22 annual accounts

- 1 Our audit opinions on the annual accounts are unmodified
- 2 The impact of key staff absences resulted in delays to the receipt of some audit evidence and approval of the audited accounts
- 3 Significant adjustments were made in the audited accounts to correct non-current asset misstatements

Financial management and sustainability

- 4 The council reported an underspend of £1.4 million for 2021/22 in services
- 5 General Fund reserves have reduced by £4 million due to the use of earmarked reserves
- 6 Overall financial systems of internal control operated effectively, with the exception of payroll controls
- 7 The 2022/23 budget is based on approved savings of £1.4 million and a £4 million use of reserves
- 8 Unallocated General Fund reserves are expected to fall below the Council's minimum level by March 2023
- 9 Medium and longer term financial plans are in place. Savings plans from 2023/24 onwards have been developed and options have been presented to members

Governance and transparency

- 10 Governance arrangements are appropriate and operated effectively, but a review of the integration scheme continues to be delayed
- 11 Interim management arrangements remain in place

Best Value

- 12 The council has an appropriate and effective best value framework in place, though recent progress against two BVAR recommendations has been slow
- 13 Internal performance reports show mixed results and although performance remains above average compared to other councils, overall it has declined since 2019/20

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Inverclyde Council (the council) and its group.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 7 June 2022 meeting of the Audit Committee. This report comprises the findings from an audit of the annual accounts and consideration of the wider audit dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2021/22 have been:
 - an audit of the annual accounts of the council and its group and the issue of independent auditor's reports setting out our opinions
 - a review of the council's key financial systems
 - audit work covering the council's arrangements for securing best value relating to financial management, financial sustainability and the use of resources
 - consideration of the four audit dimensions
4. The global coronavirus pandemic has had a considerable impact on Inverclyde Council during 2021/22. This has had significant implications for the services it delivers and its ability to progress its transformation agenda. We considered the risks related to the pandemic as part of our audit planning and did not consider there to be any significant audit risks for 2021/22.

Adding value through the audit

5. We add value to the council through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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

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

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

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

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

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £265,340 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

14. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, KPMG will be the appointed auditor for Inverclyde Council. We will work closely with the new auditors to ensure a well-managed transition.

15. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are several significant changes introduced by the new Code, including the integration of Best Value work into wider scope audit work.

16. We would like to thank Council members, Audit Committee members, Corporate Management Team, and other staff, particularly those in Finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

The impact of key staff absences resulted in delays to the receipt of some audit evidence and approval of the audited accounts.

Significant adjustments were made in the audited accounts to correct non-current asset misstatements

Our audit opinions on the annual accounts are unmodified

17. The accounts for the council and its group for the year ended 31 March 2022 were approved by the Council on 10 November 2022. Our independent auditor's report identifies:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance

18. A special Council meeting was originally arranged for 27 October 2022 to approve the audited accounts. However, due to a key staff absence, the approval process was delayed to 10 November 2022 to allow sufficient time to process adjustments and review.

The unaudited accounts were submitted in line with our agreed audit timetable, but there were delays in obtaining audit evidence

19. The unaudited annual report and accounts were received in line with our agreed audit timetable on 28 June 2022. The working papers provided to support the unaudited accounts were of a good standard, but evidence requested from Payroll and Human Resources to support staff costs caused significant delays to our audit work. The delays were due to the long-term

absence of key personnel within the service which impacted significantly on the audit with testing taking substantially longer than planned and causing delays in other areas of work.

There were no objections raised to the annual accounts

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the 2021/22 accounts.

Overall materiality is £4 million

21. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values. We also determine a lower performance materiality threshold.

22. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4 million
Performance materiality	£2 million
Reporting threshold	£120,000

Source: Audit Scotland

We have significant findings to report on the audited annual accounts

24. We have reported a number of issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Fixed Asset Register</p> <p>In response to a recommendation in our 2020/21 Annual Audit Report, the council implemented a new asset register during 2021/22.</p> <p>Our testing identified that some revalued and indexed assets had no depreciation charged. The result was an increase of £4.1 million to the 21/22 depreciation charge.</p> <p>Following desktop revaluation exercises, we identified that accumulated depreciation balances of £8.1 million need to be written back in the asset note in order to comply with the Code of Accounting Practice. This did not affect the overall amount of Net Book Value.</p>	<p>The audited accounts have been adjusted to correctly reflect these adjustments in the value of non-current assets.</p>
<p>2. Business Premises Renovation Allowance</p> <p>In March 2013, the Council made a long-term loan of £1.969 million to Inverclyde Property Renovation LLP, a partnership established to develop the offices at Wallace Place, Greenock and Princes Street, Port Glasgow under the Business Premises Renovation Allowance (BPRA) Scheme. This loan has been written-off in 2021/22 and the properties returned to the council.</p> <p>Our testing identified that the two properties were not included in the asset register at their correct value. This resulted in an impairment of £1.9 million.</p>	<p>The audited accounts have been adjusted to correctly reflect the value of the properties as disclosed in the valuation report.</p>
<p>3. Heritage assets</p> <p>The Council's heritage asserts are valued at £18.0 million but have not been formally revalued since 2012. In addition, disclosures around the valuation frequency of Heritage Assets and Council policy on</p>	<p>The audited accounts have been adjusted to correctly reflect current valuation practice. We have accepted the current valuation of heritage assets, noting that these assets are incidental to the operations of the Council. Officers</p>

Issue	Resolution
valuations was inaccurate and not reflective of actual practice.	have agreed that the revaluation of heritage assets will be prioritised in 2022/23.
	<p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>

Source: Audit Scotland

25. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries focusing on significant risk areas and transactions with related parties.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Variance analysis of balances and transactions in current and prior year accounts.</p> <p>Substantive testing of income and expenditure transactions</p>	<p>Results & Significant Judgements:</p> <p>Controls over journal entry processing are appropriate and operated effectively.</p> <p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>We undertook extended testing of high-risk journals using data analytics with no errors identified.</p> <p>Our data analytics-based approach to journal testing ensured that we considered those journals that appeared unusual. No inappropriate journals were identified.</p> <p>Variance analysis of balances and transactions in current and prior year accounts was used to target higher risk areas as part of audit</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>sampling. No errors were identified that required adjustment in the audited accounts.</p> <p>Cut-off testing of income and expenditure transactions found no instances where these had been accounted for in the wrong financial year.</p> <p>Testing of accruals and prepayments identified no errors.</p> <p>There were no unexplained significant transactions identified from our audit work.</p> <p>Conclusion:</p> <p>No issues were identified that indicate management override of controls.</p>
<p>2. Estimation in the valuation of land and buildings</p> <p>Inverclyde Council held land and buildings with a NBV of £542 million as at 31 March 2021, with land and buildings revaluated on a five-year rolling basis. An external valuer carries out valuations of land and buildings. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. We have been advised that the council will apply indexation to land and buildings for 2021/22. There is a risk that valuations will change significantly in 2021/22 and create material uncertainty</p>	<p>Reviewed the information provided to the external valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the professional valuer.</p> <p>Completed a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p> <p>Reviewed the reports from the valuer to confirm overall asset valuation movements.</p> <p>Obtained an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Examined management's assessment of any assets not</p>	<p>Results & Significant Judgements:</p> <p>Our review of the valuer engaged to provide valuations for non-current assets found them to be independent and competent.</p> <p>We identified issues with the fixed asset records as a result of the transition to a new register as identified at Exhibit 2.</p> <p>Walkthrough testing of valuation procedures adopted by management experts was satisfactory and we reviewed officers challenge of non-current asset valuations.</p> <p>The Valuer advised there was no material uncertainty over non-current asset valuations carried out in 2021/22.</p> <p>The valuation report for 21/22 was reviewed. Overall asset</p>

Audit risk	Assurance procedure	Results and conclusions
over assets not subject to revaluation.	<p>revalued in 2021/22 against evidence of changes in other revalued assets.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Sample tested individual asset valuations and lives.</p>	<p>valuation movements have been accurately reflected in the 21/22 financial statements.</p> <p>For land and buildings not fully revalued in 21/22, the valuer provided desktop revaluations based on BCIS indices to bring the carrying value of these assets to a fair value.</p> <p>Non-current asset notes in the financial statements were agreed to the property asset register with no errors identified.</p> <p>Testing of individual asset valuations and lives identified no errors.</p> <p>Conclusion:</p> <p>We identified some issues with the fixed asset register which led to material adjustments in the audited accounts (see Exhibit 2).</p>

Other areas of audit focus

26. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- IAS19 net pensions liability: Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth. These are subject to significant discounting based on corporate bond rates. Assets are based on individual employer body shares of assets at last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

27. We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions and reviewed appropriateness of actuarial assumptions and results including comparison with other councils. We established officer's arrangements for ensuring the

reasonableness of professional estimations and the accuracy of information provided to the actuary by Inverclyde Council. There are no matters which we need to bring to your attention.

Across the UK, a technical accounting issue has been identified covering infrastructure assets.

28. Infrastructure assets typically include highways, footpaths, bridges, and culverts and are included at depreciated historical cost in the accounts (£73.8 million at Inverclyde Council). A replaced component of an asset has to be derecognised and at some councils the records of additions do not permit compliance with the accounting code. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value; accumulated depreciation and potentially the net book value of the assets.

29. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

30. The Council has applied both statutory overrides in the 2021/22 audited Annual Accounts.

Misstatements of £7.9 million were adjusted in the audited accounts

31. Total misstatements identified were £7.9 million. These were adjusted in the audited accounts resulting in an increase in overall net income in the Comprehensive Income and Expenditure Statement by £3.8 million. The overall adjustments increased net assets in the Balance Sheet by £3.8 million. The significant issues are identified in [Exhibit 2](#).

32. We considered the need to revise our audit procedures and approach. We reviewed the nature and causes of these misstatements, with the main issue being the omission of depreciation in the Asset Register. We reviewed all assets that were missing a depreciation charge as part of our work to determine the misstatement. We also reviewed the valuation evidence for all of the BPRA assets. Although these misstatements breached our performance materiality, we concluded that these arose from issues that have been isolated, identified and corrected in their entirety and do not indicate further systemic error.

33. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance, after considering advice from senior officers.

34. Management have adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

Some progress was made on prior year recommendations

35. The Council has completed four of our seven prior year recommendations, with one in progress, and two outstanding. For the actions not yet implemented, a revised response and timescale has been agreed with management and is set out in [Appendix 1](#).

2. Financial management

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

Main judgements

The council reported an underspend of £1.4 million for 2021/22 in services

General Fund reserves have reduced by £4 million due to the use of earmarked reserves

Overall financial systems of internal control operated effectively, with the exception of payroll controls

The 2021/22 budget included identified savings and £1 million to be met from reserves

36. The 2021/22 budget was set at £203 million and included the planned use of £1 million of general reserves. The budget also included £2.8 million of previously approved savings incorporated into the base budget.

Efficiency savings of £1.1 million were achieved

37. The council agreed further efficiency savings of £1.1 million as part of the 2021/22 budget process. These were implemented on a recurring basis, contributing to the overall underspend achieved.

The council reported an underspend of £1.4 million for 2021/22 in services

38. The 2021/22 revenue outturn is an underspend of £1.4 million (0.7% against revised £190 million budget). The main areas of variance are:

- Additional staff turnover savings achieved across the council of £2.1 million
- Release of contingencies not required of £0.6 million
- Overspend of £0.4 million within client package costs
- Under recovery of £0.3 million for school meals and breakfast club income
- Increases in transport costs across services.

39. These underspends when taken together with increased funding and council tax income (£0.8 million) and the application of earmarked reserves of £4.7 million lead to the reduction in the total general fund of £4 million.

Budget processes were appropriate

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

The Council received an additional £27.6 million of Covid-19 funding in 2021/22

41. The impact on public finances of the Covid19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy.

42. The council received a significant level of Scottish Government funding to support services, employees and residents through the Covid-19 pandemic. £16.8 million was received by the council through the general revenue grant, and a further £10.8 million under agency arrangements. £0.4 million of the £10.8 million remained at the year end and is carried forward as re-payable to the Scottish Government. This is disclosed appropriately in the annual accounts.

The General Fund reserve balance has reduced by £4 million

43. The General Fund balance decreased from £43 million at 31 March 2021 to £39 million at 31 March 2022 mainly as a result of the use of earmarked reserves of £4.7 million. Earmarked reserves still represent £35 million of this total which includes £6 million to support future budget strategy. This leaves a balance of £4 million of unallocated reserves (2.0% of the council's budgeted net annual running costs).

44. Inverclyde Council continues to have high General Fund balances relative to its net annual revenue. The council's policy on balances will continue to be reviewed, as part of the budget setting each year, taking into account risks and challenges for the year ahead.

45. [Exhibit 4](#) provides an analysis of the General Fund reserves balance over the last six years split between earmarked and unearmarked reserves. This shows that the level of reserves has been rising between 2018/19 and 2020/21, partly due to late and unspent Covid-19 funding received from the Scottish Government. This has then reduced in 2021/22 as some of these reserves were used.

Exhibit 4

Analysis of general fund balance



Source: Inverclyde Council Audited Financial Statements

Capital expenditure increased in 2021/22 but challenges remain

46. The continuing effect of the Covid pandemic had a significant impact on the delivery of the capital programme and the outturn shows slippage of 8.6%. Capital expenditure was £20.8 million in 2021/22 which is an increase of £4 million on the previous year.

47. The council identified that supply chain insecurity and associated financial pressures have been a recurring issue, through the initial impact of COVID, the UK exit from the EU, increased global demand for materials and most recently the impact of the invasion of Ukraine by Russia. As a result, other challenges which have been seen in recent tender exercises, and is predicted to continue in the short to medium term are:

- Material availability will impact on programmes with potentially extended lead-in/pre-site periods and/or site programmes.
- Contractors may be reluctant to hold tenders open for the normal period (120 days) currently included in the majority of Council tenders.
- Although the market generally remains keen, there may be a move towards more selective tendering and lower numbers of tenders returned (depending on individual project circumstances / type).
- Tender costs are likely to increase to reflect the cost of current materials increases and future risks impacting affordability unless additional funding is possible.

48. Due to these circumstances, the council anticipate that it will be difficult to remain within their 10% slippage threshold in 2022/23, with current slippage at 12%.

Borrowing levels have decreased as maturing debt has not been replaced

49. The council's gross external debt was £246 million at 31 March 2022 compared to the capital financing requirement (CFR) limit of £285 million. The council's average loans rate was 3.43% for 2021-22, an increase of 0.01% from 2020-21. The council repaid £10 million of maturing debt during the year and undertook no borrowing.

50. The council's Treasury Management Strategy and Investment Strategy covering the period 2021-22 to 2024-25 was approved along with the Capital Strategy at the meeting of Inverclyde Council in April 2021. The Strategy identified the need to borrow £45 million over the period to replace existing loans due to be repaid and to fund the planned Capital Programme.

Overall financial systems of internal control operated effectively, with the exception of payroll controls

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

52. Several control weaknesses were identified including the timely review of control account reconciliations, system user privilege reviews, checking of payroll exception reports and operation of the payroll validation control. Sample testing also identified that many pay or conditions changes were not subject to second officer checks or evidence of authorisation could not be provided.

53. We revised our audit procedures due to the weaknesses in payroll but concluded that there were no material errors in the financial statements.

54. Management have previously accepted the risks associated with some of these weaknesses. However, we have again identified these significant weaknesses and the risk that this may have to accurate and valid processing of payments to staff.

Internal audit operates effectively

55. The council's internal audit function is provided internally. We reviewed the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

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

57. We have reviewed the arrangements in place to maintain standards of conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

58. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. [Exhibit 5](#) summarises the current re-check position for the council which was refreshed in May 2022.

Exhibit 5 NFI activity



5,947

Matches



1,122

Completed/closed investigations

- Source: NFI secure website: www.nfi.gov.uk
-

59. The results of NFI activity are routinely reported to the Audit Committee by the Chief Internal Auditor. We concluded that the council is pro-active in investigating matches and reporting the outcomes of NFI activity.

3. Financial sustainability

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

Main judgements

The 2022/23 budget is based on approved savings of £1.4 million and a £4 million use of reserves

Unallocated General Fund reserves are expected to fall below the Council's minimum level by March 2023

Medium and longer term financial plans are in place. Savings plans from 2023/24 onwards have been developed and options have been presented to members

The 2022/23 budget is based on approved savings of £1.4 million and a £4 million use of reserves

60. The 2022/23 Budget was set at £219 million and approved by the Council in February 2022.

61. It includes a funding gap of £6 million. The funding gap is to be met from £1.4 million of savings/adjustments (including removal of 7.4 FTE posts), a 1.95% increase in Council Tax which will raise a further £0.6 million, and the agreed use of £4 million from General Fund reserves. In his report accompanying the budget proposals, the Interim Director of Finance & Corporate Governance reminded members of the risks and implications of the use of this level of one-off reserves and the very significant challenges this will leave for the new Council.

62. The budget includes a significant increase (£9.2 million) in funding to the IJB, following the increase in Adult Social Care funding announced as part of the 2022/23 Scottish Government Budget.

The current overspend projection is £2.0 million for 2022/23

63. As at 30 September 2022, the council is projecting an overspend of £2.0 million. This is mainly due to projected pay and non-pay inflation pressures. These include rising utility and fuel costs and contracts linked to the Retail Price Index, as well as the national pay awards.

Unallocated General Fund reserves are expected to fall below the Council's minimum level by March 2023

64. Projected General Fund unallocated reserves at 31 March 2023 are £3.4 million. This is £0.6million below the council's minimum recommended balance of £4 million.

Medium and longer term financial plans are in place. Savings plans from 2023/24 onwards have been developed and options have been presented to members

65. We reported in our 2020/21 Annual Audit Report that the council has a good process in place for financial planning. The council's latest financial strategy update covers the period 2022/23 to 2031/32. It is updated on a six-monthly basis and ensures that strategic initiatives that require long-term revenue and capital commitments are properly incorporated into the financial planning process. Such longer-term initiatives include the asset management strategy, school estates management plan and City Deal projects.

66. An updated financial strategy was presented to the Council in June 2022 taking full account of the estimated impact of Covid-19 on the council's finances.

67. The strategy provides detailed financial forecasts over the medium-term period 2022/23 to 2025/26 and identifies issues that will impact in the longer-term for planning purposes. Through this process, officers have identified a cumulative funding gap of £19.2 million over the period to 2026. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2023 to 2026 are £9.3 million and £26.9 million respectively.

68. The strategy includes an action plan for addressing short, medium and long-term issues. The council plans to bridge funding gaps mostly through savings and the use of reserves. Savings plans from 2023/24 onwards have been developed and options have been presented to members.

69. The council will face many difficult decisions in achieving the required savings from 2023/24 onwards and budget consultation is currently ongoing. This could include severe cuts and reductions to service delivery in some areas.

Recovery from the pandemic is ongoing

70. The council approved an Organisational Recovery Plan in June 2021 which outlined the key objectives to recovery. It was agreed that the council would receive no further updates after March 2022 and that any outstanding actions would be incorporated into the relevant Local Outcome Improvement Plans or Inverclyde Council improvement plans.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Governance arrangements are appropriate and operated effectively

Interim management arrangements remain in place

Review of the integration scheme continues to be delayed

Governance arrangements are appropriate and operated effectively

71. As part of our audit process we continually assess the governance arrangements within the council and review the Annual Governance Statement in the annual report and accounts. We concluded that arrangements are appropriate and operated effectively during 2021/22.

Interim management arrangements remain in place

72. In October 2020, the council agreed interim management arrangements. This included a temporary restructure following significant retirements from the Corporate Management Team (CMT). A new Chief Executive took up post in September 2021.

73. The impact of the pandemic has continued longer than was anticipated which created the need to review the end date for the interim arrangements. In October 2021, the council agreed to maintain the existing structure while removing the Interim Head of Public Protection and Recovery in March 2022 and recruiting a Head of Legal & Democratic Services. It was agreed that this structure would remain in place until April 2023.

74. The arrangements supported the recovery and delivery of an organisational recovery plan. The extension will also allow the impact of the National Care Service and the future direction of Shared Services to be considered before commitment to a new structure. This timescale also allows members and officers to focus on the refreshed Corporate Plan and Local Outcome Improvement Plan.

Review of the integration scheme continues to be delayed

75. The Integration Joint Board together with councils and health boards have a statutory duty under the Public Bodies (Joint Working) (Scotland) Act 2014 to review the Integration Scheme every five years. The current Integration Scheme in Inverclyde was due to be reviewed by March 2020.

76. The Scottish Government have confirmed IJBs will be required to review their current integration schemes rather than complete a new scheme. The IJB is working with the other Greater Glasgow & Clyde IJBs around the timing of this review. It is anticipated that the six IJBs (associated with NHS Greater Glasgow and Clyde) will work together with their Council and Health Board Partners to review their schemes with a view to approving and submitting the updated Integration Schemes to the Scottish Government.

77. The initial deadline was agreed as July 2022 but a revised timetable has been issued by the group with an anticipated completion date of May 23 at the earliest. This matter has been set out in the Governance Statement.

The council continues to develop shared services, but progress has been slow

78. The Council continues to operate an element of shared services with West Dunbartonshire Council and this informed the senior officer structure changes approved previously. Progress has been slower than anticipated with anticipated savings within Environmental Services not being achieved to date. A jointly commissioned external review of progress and the future direction of Shared Services is on-going with a report due to Elected Members late 2022/early 2023.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The council has an appropriate and effective best value framework in place, though recent progress against two BVAR recommendations has been slow

Internal performance reports show mixed results and although overall performance remains above average compared to other councils, overall it has declined since 2019/20

The council has made progress against BVAR recommendations from 2017, but recent progress on two actions has been slow

79. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council has been considered by the Accounts Commission at least once in this period. The [BVAR report](#) for the Inverclyde Council was published in June 2017. This was a positive report overall. There were ten recommendations made in the report to support further improvement at the council.

80. At its meeting in June 2017, the council agreed the improvement actions within the BVAR and that a progress report will be submitted to the Policy and Resources Committee every six months. We continue to monitor the council's progress against the improvement actions.

81. In our Annual Audit Report 2020/21, we identified that six of the ten recommendations had been completed with the remaining four still ongoing. This is no longer routinely reported in the Corporate Policy and Performance Update Report. However, updates from officers and information in Corporate Directorate Improvement Plans notes progress on the four remaining actions (Community Empowerment, Measuring Impact and Outcomes, City Deal and Shared Services).

82. Our assessment is that whilst two of these four actions are complete recent progress has been slow in the remaining two and needs to be accelerated.

Exhibit 6 Progress against BVAR recommendations

BVAR Recommendation	Council assessment	Summary of progress
<p>1. To progress community empowerment to the level that the Act requires, the council will need to further develop the capacity of communities it is working with. It will need to raise awareness of the possibilities for communities and look at the level of funding and staffing required to work with communities to progress initiatives including the transfer of assets and participatory budgeting.</p>	Blue – complete	<p>Complete</p> <p>By early 2022 Council had progressed the process for community planning to the level that the Act requires. This has included the development of six Communication and Engagement groups in each of the localities, opportunities for participatory budgeting identified on an annual basis and a clear process for community asset transfer set up</p>
<p>4. Actions to deliver strategic improvements should identify the difference they are expected to make to the overall strategic outcomes, with milestones at key intervals.</p>	Blue - complete	<p>Complete</p> <p>As part of its overall approach to delivering continuous improvement, the Council continues to strengthen its work around the measurement and reporting of outcomes, including engaging with experts, learning from good practice elsewhere and building on local strengths. A clear link between the desired outcomes, milestones and performance indicators is in place.</p>
<p>8. Appointment of a lead change officer and the production of a detailed Business Plan for shared services</p>	Amber – slight slippage	<p>No recent progress</p> <p>An overall business plan for shared services is not in place. Inverclyde and West Dunbartonshire Councils share a Head of Service across Roads, Waste, Fleet, Street cleaning and Ground Maintenance. Two strategic manager posts are also shared in respect of Waste, Fleet Street Cleaning and Ground Maintenance.</p> <p>West Dunbartonshire and Inverclyde Councils also have shared a Chief Internal Auditor. Business planning in potential management changes to complement this arrangement are being undertaken for consideration by both councils.</p> <p>However, East Dunbartonshire Council have agreed to withdraw from the Shared Services Joint Committee and</p>

		are currently within an 18 month notice period.
9. The council has experienced delays in its City Deal projects. Councillors and officers should continue to focus significant efforts on developing these projects with private sector partners.	Amber – slight slippage	<p>Significant delay in delivery</p> <p>A number of technical issues have contributed to delays in City Deal projects.</p> <p>Progress on each of the City Deal projects is detailed below at paragraphs 83 to 89.</p>

Source: Inverclyde Council

City Deal projects have been delayed

83. We reported in our 2019/20 and 2020/21 Annual Audit Reports that City Deal projects had suffered delays and this has continued in 2021/22.

Greenock Ocean Terminal

84. The works commenced on site on 17 May 2021 with original contract completion date of 10 May 2022. However, the contractor encountered difficult ground conditions and obstructions in the ground which impacted progress in the early stages.

85. The Contractor also experienced difficulties with the supply chain including the insolvency of a key sub-contractor. The works are progressing with the final cladding and flashing works progressing on the external façade. Internal works including finishes and services installations are progressing. External works including paving and retaining walls are on-going. Gas and water connections are now live with power connection expected in the near future.

86. The contractor is currently projecting completion in late December subject to remaining work package completion and the on-going industry challenges of materials and labour availability being experienced across the sector. The Council also continues to engage with the future users of the facility to co-ordinate the final fit-out works which are key to the completion / operation of the facility.

Inchgreen

87. The Final Business Case was approved by the GCR Chief Executives Group and the Joint Venture Company has been formed. This is expected to be complete in 2023/24 at a total cost of £9.4 million.

Inverkip

88. The project is to construct a signalised junction on the A78 at the easterly junction with Main Street, Inverkip and another signalised junction at Harbourside along with a new signalised roundabout for the Power Station Development.

89. The project has been procured through the SCAPE framework and it is currently at the first stage of budget pricing as a design and build contract. Officers are also in discussion with Scottish Power regarding the funding and contractual arrangements of the project. This is also expected to be completed in 2023/24 at a total cost of £3.3 million.

Revision of the Local Development Plan has been delayed

90. We reported in our 2019/20 Annual Audit Report that a successful legal challenge to the council's housing policy resulted in an incomplete Local Development Plan being in place. The council agreed that a full review of the Local Development Plan would be undertaken to be submitted for examination by autumn 2021.

91. The draft LDP was submitted for consultation in August 2021 with responses to be considered before submission to Scottish Ministers. However, management have now revised the completion date to 30 April 2026. The council report that this has been exacerbated by the delay in the outcome decision by the Scottish Ministers on the West of Quarry Drive application, until after the local government elections. This resulted in insufficient time to modify and continue preparation of the proposed plan, within the designated period, under the Planning (Scotland) Act 2006. Work will start afresh on a draft LDP based on the new guidance under the 2019 Planning (Scotland) Act.

Performance management arrangements provide a sound base for improvement

92. The council's performance management arrangements were considered in our BVAR issued in 2017. We identified that the council has an established performance management framework that managers and councillors clearly understand, and that this provides a sound base for improvement.

93. The council's 2021/22 Annual Performance Report includes details on performance in delivering the priorities within the Corporate Plan 2018/23. The report recognises the impact of the pandemic and acknowledges that the provision of some performance data has been affected, as well as some outcomes.

94. Outcomes are mapped to performance measures and where appropriate a RAG status is allocated, measured on a Red (performance has fallen below a set tolerance level), Amber (performance remains within a set tolerance level) and Green (the target for the year was achieved) basis.

95. Of the 71 measures that showed a RAG status, 18 were red (25%), 8 were amber (11%), and 45 were green (64%). 35 of these measures show an improvement on the previous year, while 31 show a decline in performance. There were notable improvements in reducing the prevalence of poverty in our communities, with a particular focus on child poverty. However, safeguarding, supporting and meeting the needs of the most vulnerable families and residents has seen a decline in 2021/22.

Statutory performance indicators (SPIs) are being met

96. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

97. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

98. We have evaluated the council's arrangements.

99. Overall, the Council continues to have robust arrangements in place to report on its performance, across the whole council, and the means used for publication are satisfactory, ensuring interested parties have access to performance reports when required.

Performance remains above average compared to other councils but has declined since 2019/20

100. The council participates in the [Local Government Benchmarking Framework \(LGBF\)](#). The most recent [National Benchmarking Overview Report 2020/21](#) by the Improvement Service was published in March 2022, including data for 74 of 95 indicators, with some data delayed. The available performance data covered the 2020/21 reporting period. The Council has 40 indicators out of 74 (54%) in the top two quartiles which is the tenth highest across all Scottish councils. This compares to 67% in the previous year which was the highest across all Scottish councils.

101. The decrease in the number of indicators in the top two quartiles is partly attributable to the non-availability of data for "satisfaction" measures, which is an area where Inverclyde historically has performed well.

Locality planning continues to develop

102. Following feedback and learning in 2021/22, it has been agreed that the six Communication and Engagement Groups will continue in the locality areas and be further developed. The Integrated Joint Board will establish two formal Health and Social Care Locality Planning Groups - one for East Inverclyde and one for West Inverclyde.

103. The Community and Engagement Groups (CEGs) aim to encourage residents to become actively involved in local democratic decision making and to make it easier for communities and services to work together to develop solutions to local issues. The CEGs have helped to identify local priorities; participated in decision making around how services are planned, designed and delivered and influenced how money was spent in their area. Support has been provided by Community Development Workers working alongside the groups to strengthen community empowerment.

104. The further development of Locality Planning in Inverclyde is being supported by learning from elsewhere. Officer discussion on the different approaches undertaken across the Ayrshires have taken place. A half day workshop for Inverclyde Alliance partners and Inverclyde Council Elected Members has taken place. Officers from other local authorities have been invited to share experience in locality planning.

National performance audit reports

105. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 2](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. (NEW) Heritage Assets Valuation review</p> <p>The Council's heritage assets are valued at £18.0 million but have not been formally revalued since 2012. In addition, disclosures around the valuation frequency of Heritage Assets and Council policy on valuations was inaccurate and not reflective of actual practice.</p> <p>Risk – Heritage asset valuations are significantly out of date.</p>	<p>The council should prioritise the revaluation of heritage assets in 2022/23.</p> <p>Exhibit 2 (Issue 3)</p>	<p>Officers within Finance and Cultural Services will progress a revaluation of the heritage assets prior to the closure of the 2022/23 Accounts.</p> <p>Interim Director Finance & Corporate Governance/ Corporate Director, Education, Communities & OD</p> <p><i>June 2023</i></p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 2. Detailed review of fixed asset register</p>	<p>Management should complete a detailed review of its fixed asset register at each year end to ensure incorrect entries are identified.</p>	<p>Complete</p> <p>A replacement fixed asset register will be developed for use from the 2021/22 Accounts onwards.</p> <p>Interim Director, Finance & Corporate Governance</p> <p><i>June 2022</i></p>
<p>b/f 3. Non-current asset valuations</p>	<p>The council should complete a management review of its</p>	<p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
	fixed asset register at each year end and reconsider its approach to five-year programme of revaluation.	<p>The approach of 5 yearly valuations will be reviewed and either a rolling review or indexation will be implemented from the 2021/22 Accounts</p> <p>Interim Director, Finance & Corporate Governance</p> <p><i>June 2022</i></p> <p>For other land and buildings not subject to revaluation in 2021/22, the valuer applied an appropriate desktop exercise based on changes in the key rebuild/ retender costs based on BCIS data.</p>
b/f 4. Management Commentary	The council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission's Local Government Overview.	<p>Complete</p> <p>The previously agreed action will be implemented from the 2021/22 Accounts</p> <p>Interim Director, Finance & Corporate Governance</p> <p><i>June 2022</i></p>
b/f 5. Estimation and judgement disclosure	The disclosure, specifically in relation to property, plant and equipment and pension liabilities, should be reviewed in line with Audit Scotland's Good Practice Note – Judgements and Estimates .	<p>Outstanding</p> <p>The requirements of the Good Practice Note will be included within the 2021//22 Accounts</p> <p>Interim Director, Finance & Corporate Governance</p> <p><i>June 2022</i></p> <p>A review has not been carried out for the 2021/22 Accounts due to limited time and resource.</p> <p>A review will be progressed taking into account the approach taken by other Councils.</p>

Issue/risk	Recommendation	Agreed management action/timing
		Finance Manager (Environment & Technical) <i>June 2023</i>
b/f 6. Medium to long term savings	The council should further develop savings plans to bridge future funding gaps in the medium to long term.	Complete The high level savings options largely developed by officers will be refined and discussed with Members as part of the 2023/24 Budget post the May 2022 elections. Interim Director, Finance & Corporate Governance <i>February, 2023</i>
b/f 7. Internal controls	The council should ensure that robust controls are in place to address the weaknesses reported in May 2020 and ensure a robust control environment.	Outstanding Interim testing for 21/22 identified systems weaknesses including: <ul style="list-style-type: none"> • the timely review of control account reconciliations, • checking of payroll exception reports • operation of the payroll validation control. Substantive sample testing also identified that many pay or conditions changes were not subject to second officer checks and did not have evidence of authorisation. These weaknesses required us to reconsider our audit procedures. Management will carry out a review and ensure appropriate controls are implemented on a timely basis to address the reported weakness. Head of OD, Policy & Communications

Issue/risk	Recommendation	Agreed management action/timing
b/f 8. Local Development Plan	The council should develop and revise the relevant section of the LDP as soon as practicable.	<p><i>March 2023</i></p> <hr/> <p>In progress</p> <p>The preparation of the LDP will commence in February 2023 and be complete in April 2026.</p> <p>Interim Director, Environment & Regeneration</p> <p><i>April 2026</i></p>

Appendix 2. 2021/22 national reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Inverclyde Council

2021/22 Annual Audit Report

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