

# Renfrewshire Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

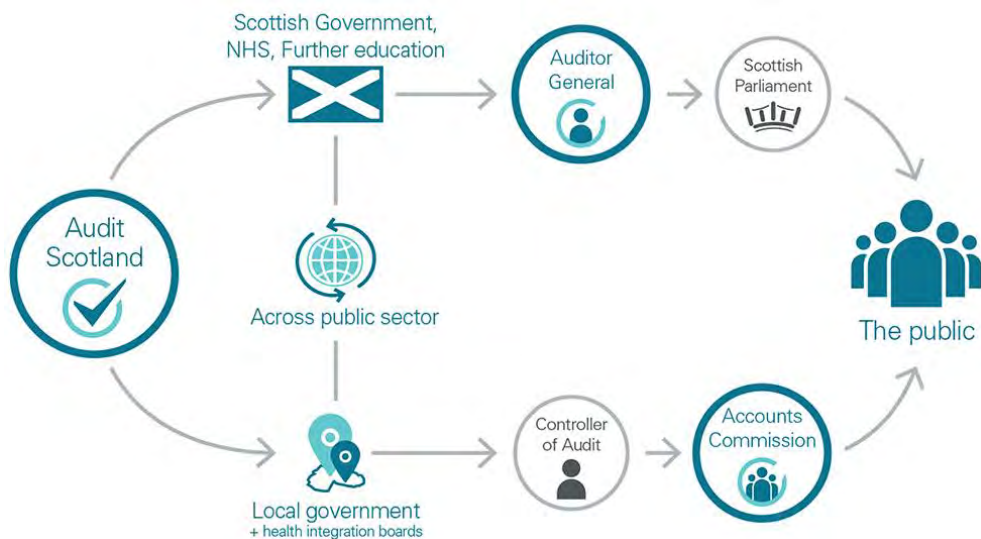
To Members of Renfrewshire Council and the Controller of Audit

28/09/2017

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 Unqualified opinions were issued for all the charities administered by the council.

## Financial management

- 3 The council has effective financial planning and management and a sound medium-term financial strategy. Budgets are clearly linked to the strategic priorities.
- 4 The council has a good track record of delivering services within its budgets and over the last 5 years has consistently contained its expenditure within annual budgets.

## Financial sustainability

- 5 The council has made effective use of reserves to support its medium term financial planning. It has built up significant reserves over a number of years and these are earmarked for specific purposes and aligned to the council's strategic objectives. Like many councils, Renfrewshire faces a significant funding gap in the medium term.
- 6 The council has identified that savings of £16 million to £27 million will be required each financial year in the period to 2020. This means the council will need to save around £56 million in the period from 2017/18 to 2019/20. This is a mid range estimate but could vary between £46 million and £80 million.
- 7 To meet future challenges, the council needs to implement its medium and long-term workforce strategy and organisational development strategy. This will be critical to managing how future services are delivered.

## Governance and transparency

- 8 In the past, the operation and performance of the Audit, Scrutiny and Petitions Board has been weak. Following the 2017 local elections, the council has reviewed and revised the remits of its committees and established the Audit, Risk and Scrutiny Board.
- 9 The council has sound governance arrangements in place for how it conducts business but there has been a lack of scrutiny and challenge at policy boards.
- 10 The council could improve performance reporting arrangements for Renfrewshire Leisure Limited.

- 11** Historically councillors have not made the most of the training and development opportunities available to them.

## **Value for money**

- 12** The Best Value audit found the council has a clear and ambitious vision for Renfrewshire to revitalise the area's economy and address poverty and inequality. It recognises that this vision can only be achieved over a long period of time.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Renfrewshire Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit, Scrutiny and Petitions Board. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the council's main financial systems and governance arrangements
- audit work covering the council's arrangements and reported in a Best Value Assurance Report in August 2017
- an audit of the council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

- 4.** Renfrewshire Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.
- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Renfrewshire Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 35\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

**Unqualified audit opinions on the council's annual report and accounts.**

**Unqualified audit opinions on the charities administered by the council.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were noted by the Audit, Risk and Scrutiny Board on 26 September 2017 and approved by the council on 28 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charities administered by Renfrewshire Council

**15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Renfrewshire Council are sole trustees, irrespective of the size of the charity.

**16.** Our duties as auditors of the charitable trusts administered by Renfrewshire Council are to:

- express an opinion on whether the charities financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

**17.** We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of Renfrewshire Council Trust Funds and Renfrewshire Council Common Goods Funds.

The council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.



**18.** The Renfrewshire Council Trust Fund consist of 4 individual funds:

- Renfrew Burgh Citizens Fund
- Renfrewshire Council Citizens Fund
- Paisley Burgh Citizens Fund
- Coats Observatory Fund.

**19.** All Trust Fund balances (excluding assets held in the Coats Observatory Fund) have been fully disbursed in the financial year and it is anticipated that the Renfrew Burgh, Paisley Burgh and Renfrewshire Council Citizens Funds will be fully wound up. An application to the Office of the Scottish Charity Regulator (OSCR) will be made in this regard once formally approved by the Finance, Resources and Customer Services Policy Board.

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

**21.** The Community Empowerment (Scotland) Act 2015 places new obligations on councils with regards recording and the use of Common Good assets. The council is required to prepare and publish a register of all Common Good properties and make it publicly available. The Act also requires local authorities to publish any proposals and consult with community bodies before disposing of or changing the use of Common Good assets.

### **Submission of the council's annual report and accounts for audit**

**22.** We received the unaudited annual report and accounts on 27 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, the council's group accounts include the financial results of Renfrewshire Integration Joint Board (IJB). The group accounts include the council's share of the IJB's surplus for 2016/17 although these have no net impact on the council's reported outturn. Our audit testing confirmed that the council properly identifies transactions that relate to work commissioned by the IJB.

**23.** The council's group accounts incorporate three subsidiaries and three joint ventures as listed at note 1 to the group accounts. In some cases we have relied on the unaudited accounts of these entities since the audit of their annual accounts have not been completed. Where these entities are significant we sought assurance from their auditors.

**24.** The working papers provided with the unaudited report and accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly and enabled completion of the audit in line with the agreed timetable.

### **Risk of material misstatement**

**25.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

## Materiality

**26.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**27.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit based on budget forecasts. Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

**28.** On receipt of the annual accounts we updated our materiality calculations for the 2016/17 results, these are summarised in [Exhibit 2](#).

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## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£6.169 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£3.084 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been set at the maximum value permitted.	£0.100 million

## How we evaluate misstatements

**29.** It is our responsibility to request that all misstatements in excess of the clearly trivial reporting threshold are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

**30.** A material error was noted in relation to the valuation of council dwellings ([Exhibit 3](#), significant finding 1); this has been corrected in the audited financial statements.

**31.** A number of additional errors were noted in excess of the clearly trivial reporting threshold. Errors that management do not propose to adjust for are detailed in [Appendix 3](#). We agree that these amounts are not material in the context of the financial statements. All other misstatements have been corrected in the audited accounts.

## Significant findings

**32.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#).

## Exhibit 3

### Significant findings from the audit of Renfrewshire Council

Issue	Resolution
<p><b>1. Valuation of Council Dwellings</b></p> <p>Renfrewshire Council accounting policies state that council dwellings are carried at fair value on the basis of existing use, using the Beacon Principle methodology, with valuations taking place every 5 years. Changes to the fair value during the years between valuations are estimated on an indexation basis, using housing market data.</p> <p>The most recent valuation was carried out as at 31 March 2016, however the results of this were not included in the 2015/16 accounts. Instead the previous valuation (at as 31 March 2011) was used and indexation applied. The same approach was also applied in the 2016/17 unaudited accounts.</p> <p>In addition, indexation (to estimate changes in value for years without a full valuation) has been applied based on quarter 3 market data (as at 31 December) rather than the quarter 4 market data (as at 31 March).</p>	<p>To correct for these errors, material adjustments to both the 2015/16 and 2016/17 figures in the unaudited accounts have been processed. The impact of this was a reduction in the net book value of council dwellings of £56.232 million in 2015/16. The impact on 2016/17 was an overall £51.325 million reduction, which is net of the 2015/16 reduction and an increase in the value due to indexation being calculated based on quarter 4 figures.</p> <p>As council dwellings had been previously revalued upwards, the full impact of this reduction in value has been taken to the revaluation reserve. The reduction in value resulted in the depreciation charge for 2016/17 being reduced by £1.874 million. The overall impact has resulted in the audited accounts recording a surplus of £0.766 million.</p>

## Going concern

**33.** The financial statements of the council, its group and the associated charities have been prepared on the going concern basis.

## Other findings

**34.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

## Objections and Whole of Government Accounts

**35.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority 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.

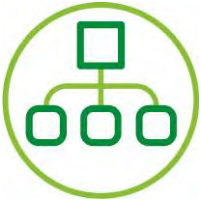
**36.** The council submitted a consolidation pack, (based on the unaudited financial statements) for the whole of government accounts to audit on 27 September 2017. The deadline for submission by the council to external audit was 21 July 2017. As a result of the late submission we will be unable to complete the audit of the council's whole of government accounts return to allow us to submit the audited return by the deadline of 29 September 2017.

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# Part 2

## Financial management

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### Main judgements

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**The council has effective financial planning and management and a sound medium-term financial strategy. Budgets are clearly linked to the strategic priorities.**

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**The council has a good track record of delivering services within its budgets and over the last 5 years has consistently contained its expenditure within annual budgets.**

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**Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.**

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### Financial performance in 2016/17

**37.** In March 2016 the council approved a budget of £381.982 million for 2016/17. To create the budget each directorate produces income and expenditure estimates based on the Service Improvement Plans (SIPs). SIPs outline the activities of each directorate and how these support the priorities and delivery of the council plan. This creates a clear link between budget-setting and the council's objectives. Amendments during the year resulted in a revised budget of £384.989 million.

**38.** The council has a good track record in delivering services near or within budget. As at 30 June 2017, there was a year-end forecast of £0.052 million underspend against budget. The near breakeven position included the use of £12.652 million of ring-fenced reserves to fund projects authorised during the year.

**39.** While the council's spending has remained in line with its overall budget, there are variations in how different services have performed. The more significant over and underspends are summarised in [Exhibit 4 \(page 13\)](#).

## Exhibit 4

### Summary of significant over and under spends against budget

Area	Under/over spend (£m)	Reason(s) for variance
<b>Underspends/Over-Recovery</b>		
Council Tax Income	£ 0.729	96% of council tax income was recovered 2016/17, in excess of the proportion estimated in the budget.
<b>Overspends/Under-Recovery</b>		
Miscellaneous Services Expenditure	£0.944	Additional debt repayments were possible due to the over-recovery of council tax.

Source: 2016/17 year end outturn report

40. Overall, the council's budget setting and monitoring arrangements are effective. Relevant explanations have been identified and reported to members for budget variances, including those noted above.

### Housing Revenue Account

41. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year; average weekly rent increased by £1.47 from £73.67 in 2015/16 to £75.14 in 2016/17.

42. The HRA records expenditure in 2016/17 of £57.648 million (2015/16: £57.144 million). Overall the HRA recorded a breakeven position in 2016/17 against budget for the year. Earmarked reserves of £0.428 million were utilised to assist tenants affected by welfare reform changes. The HRA retains a positive balance of £9.811 million.

### Non Domestic Rates

43. The council collects non domestic rates (NDR) from businesses, based on property values and a rate per pound set by the Scottish Government. The council retains the NDR income after adjustment from the national non-domestic rate pool. Gross rates levied in 2016/17 were £119.040 million, which were offset by business reliefs of £17.875 million. NDR income retained by Renfrewshire Council after contribution to the national non-domestic rate pool and other adjustments was £96.106 million.

### Council Tax

44. The council collects council tax from residents based on the value of their home, categorised in eight bands – A to H. The charge for each band is calculated based on band D. There has been no change the band D charge (£1,164.69) from 2015/16 and therefore all council tax rates have remained static. Renfrewshire Council recorded £67.836 million of council tax income in 2016/17, net of contributions to the council tax reduction scheme and council tax reliefs.

## Efficiency savings

**45.** With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**46.** The council implemented the Better Council Change Programme (BCCP) in 2014/15, on a two year rolling basis. Phase 1 was completed at the end of 2016/17 and successfully delivered annual recurring (as opposed to one-off) savings of £15.1 million against a target of £14.4 million.

- Phase 2 started in March 2016 with the aim of generating recurring savings of £5.5 million by the end of 2017/18. Two of the biggest projects associated with Phase 2 are: an online customer portal for services such as council tax, housing benefit and reporting of community services issues. This was launched in March 2016 and as of August 2017 the online system had 24,000 active users
- the Enterprise Resource Planning (ERP) project is intended to combine finance, HR, payroll and procurement systems into a single integrated application. Implementation of ERP began in July 2016, with go-live originally scheduled for April 2017. The implementation of ERP has been delayed with a target go live date of December 2017.

**47.** The 2016/17 annual efficiency statement reported to the Finance, Resources & Customer Services Policy Board in August 2017 reported that Renfrewshire Council achieved cash savings of £8.263 million for the financial year, primarily delivered through BCCP projects.

## Borrowing in 2016/17

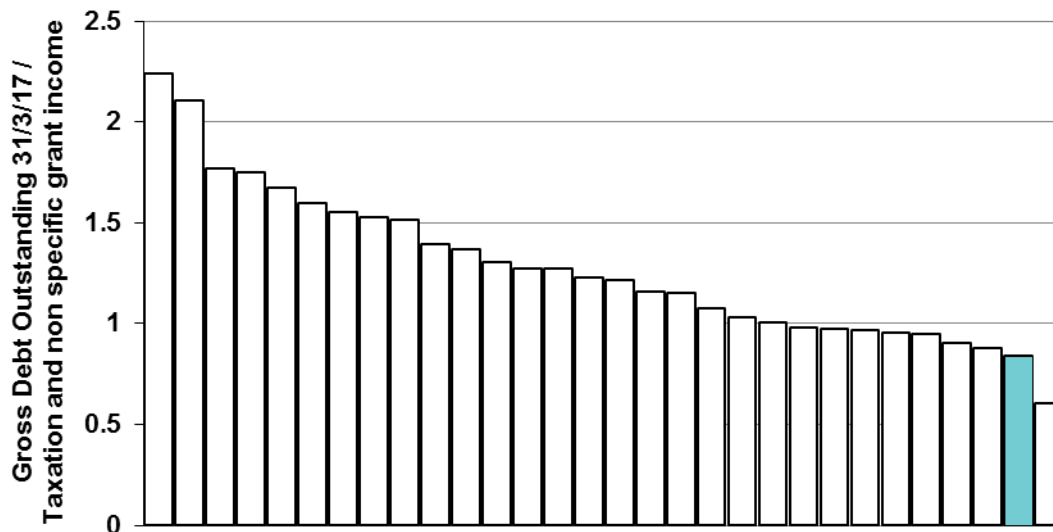
**48.** The council's outstanding loans at 31 March 2017 were £255.628 million, an increase of £25.795 million on the previous year. Additional planned borrowing of £32 million from the Public Works Loan Board (PWLB) was undertaken in the year, primarily to fund repayments of existing PWLB loans (£11.520 million in 2016/17 and £11.210 million in 2017/18). Additionally, £6.773 million of reserves (from the housing capital fund) were utilised to fund loan repayments. This is in line with the change in the council's approach to the debt smoothing strategy.

**49.** In recent years, Renfrewshire Council's debt smoothing strategy has accelerated debt repayment and resulted in a decrease in external borrowing. The effect of this accelerated repayment slowed in 2015/16 and 2016/17 and showed a net increase in the amount of external debt for the first time in a number of years. This was in line with the change in the council's approach to the debt smoothing strategy and the assumptions underpinning its medium term financial strategy reported to elected members.

**50.** Overall, Renfrewshire Council continues to have comparatively low levels of debt relative to other councils in Scotland ([Exhibit 5](#)).

## Exhibit 5

### Borrowing (including PPP/FFI) as a proportion of income



Source: Audit Scotland database

**51.** The council's loan debt includes £54.744 million of loans using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

**52.** The council's LOBO debt consists of five loans taken out between 2002/03 and 2003/04. We reviewed supporting papers including an analysis of the LOBOs held by the council and comparable PWLB rates of interest and the council's treasury management policies and controls.

**53.** Based on our audit work we concluded that:

- the use of LOBOs has been undertaken in line with the council's treasury management policy, which has been reviewed and approved annually by councillors
- of the five LOBOs, all have a lower lifetime average interest rate than the equivalent duration PWLB rate available at the time the loan was taken out.

### Capital programme 2016/17

**54.** The council incurred general fund capital expenditure of £53.900 million (67% of the capital budget of £79.617 million). The main projects were:

- Riverbrae school (£7.729 million)
- LED street lighting (£6.265 million)
- City Deal developments (£5.295 million)
- refurbishment of the Russell Institute (£3.603 million)

- Mossvale/St. James primary school (£3.342 million)
- St. Fergus primary school (£2.793 million)
- ERP project (£1.775 million, see paragraph 46).

**55.** Capital spend was £25.717 million (33%) below budget. Over the course of 2016/17 the council adjusted budgets to reflect changes in the spend profile of major capital projects. The majority of these adjustments were made with no anticipated change in the completion date of the relevant project; however a small number of project completion dates have slipped. The most significant variances were:

- spend on St John Bosco / Bargarran primary schools shared campus totalled £1.805 million, £6.410 million less than originally planned. This was due to the rescheduling of the original capital plan. The project is expected to be completed on time in summer 2018
- spending on the LED street lighting project was £4.694 million lower than budget, this was primarily due to a competitive tendering process that resulted in a £3 million underspend on the project for the year. The project was completed in May 2017.

**56.** All unspent capital funds have been retained for capital spending in future periods.

**57.** The housing capital programme reported expenditure of £7.839 million in 2016/17, a £6.931 million (45%) underspend against the planned housing spend of £14.23 million as outlined in [Exhibit 6 \(page 17\)](#). The most significant reductions related to:

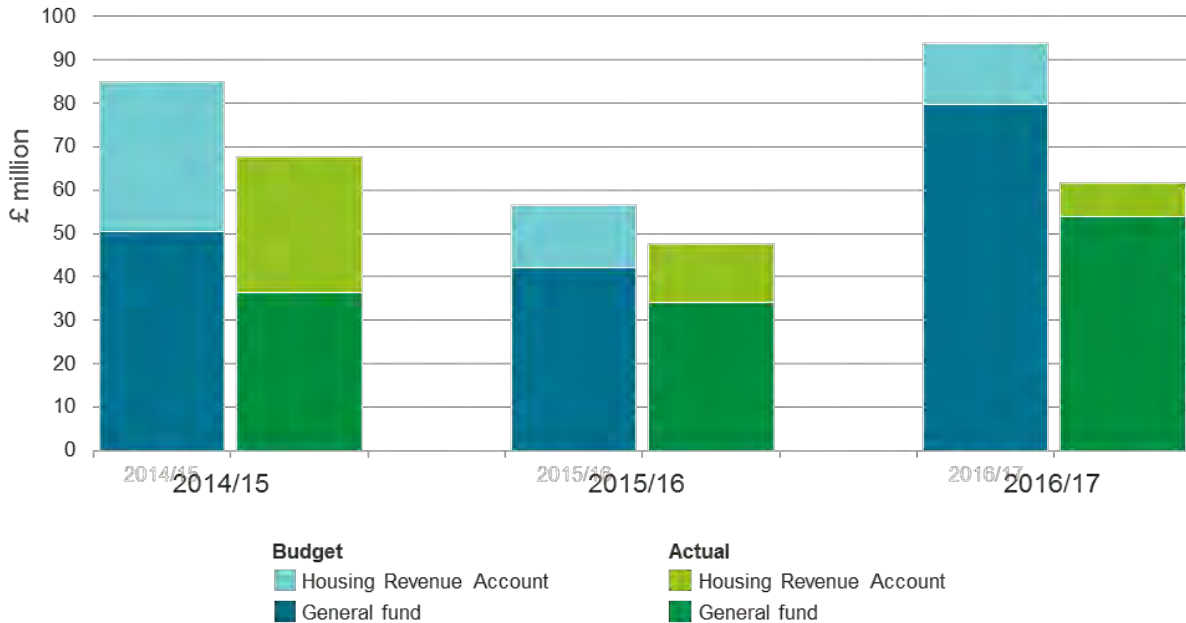
- £2.0 million of planned spend in new council dwellings in Bishopton, this has been rescheduled to the 2018/19 financial year due to delays in site preparation and delayed Right to Buy buybacks
- £1.156 million of budgeted Right to Buy buybacks planned for 2016/17 were postponed.

**58.** Renfrewshire Council should ensure that the capital budgets set are as accurate as possible and achievable.



## Exhibit 6

### Capital actual spend compared to budget (General Fund and HRA)



Source: Renfrewshire Council budget papers 2014/15 – 2016/17

## Capital Accounting

**59.** We identified a number of errors in the financial statements relating to capital accounting.

**60.** We noted that Renfrewshire Council had carried out a valuation of council dwellings as a 31 March 2016; however this had not been applied when calculating the value for the annual accounts ([Exhibit 3, issue 1](#)). Instead the value from the previous valuation (31 March 2011) had been indexed to give an estimate for the 2015/16 and 2016/17 carrying values of council dwellings. Additionally, indexation has been applied using quarter 3 market data rather than quarter 4 information. Management have amended the financial statements; the impact on the 2015/16 position was a reduction in the value of assets of £56.232 million. Carrying this forward to 2016/17 resulted in a £51.325 million reduction in asset value, which was offset by an increase in value due to indexation. The impact of both reductions in value have been charged to the revaluation reserve. Additionally, the reduction in the 2016/17 value resulted in the depreciation charge for the year being £1.874 million lower than previously calculated.

**61.** A number of additional errors in 2016/17 revaluation calculations of non current assets (other land and buildings) were highlighted during the audit. The total impact of the error was £0.493 million on the value of assets and revaluation reserve. These have been adjusted for in the audited accounts.

**62.** We also identified that £0.550 million of LED street lighting assets had been received in late 2015/16, but were incorrectly recognised as additions in 2016/17. Management have not adjusted for this error, it has therefore been included in the schedule of unadjusted errors in Appendix 3.

## Budgetary monitoring and control

**63.** The [Local Government in Scotland: Financial overview 2015/16](#) (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of

usable reserves to rely on. We noted that the council's budget and savings plan is aligned to the council priorities as set out in its Council Plan. This is consistent with good practice.

**64.** During the 2016/17 financial year, detailed scrutiny of financial performance was delegated to the Finance & Resources Policy Board which receives quarterly revenue and capital monitoring reports. From our review of these reports and attendance at committee we concluded that they provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the council's finances.

**65.** Due to a restructure of policy boards and sub-committees following the local election in May 2017, scrutiny of financial performance is now delegated to the Finance, Resources and Customer Services Policy Board.

### Financial capacity within the council

**66.** The Section 95 officer for Renfrewshire Council is the Director of Finance and Resources. He is a member of the corporate management team and has direct access to the chief executive and council members. We concluded that the Section 95 officer has appropriate status within the council.

**67.** The finance function was recently restructured to separate financial accounting and management accounting functions. We highlighted in our annual audit plan that this contributed to a risk that the annual accounts may be delayed or of poor quality, however the unaudited accounts were of a good standard.

### Internal controls

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

**69.** During our inspection of payroll processes we noted that 96 staff members who left in 2016/17 continued to be paid after their leaving date. The total value of these overpayments was £0.133 million. Management are creating a monthly reporting process to monitor any future overpayments (see [Appendix 1 - Action Plan](#), point 1).

**70.** With the exception of the above no significant control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**71.** The Annual Governance Statement notes that the council reviewed the effectiveness of its governance framework, including the system of internal financial controls. It concluded that the arrangements continue to be fit for purpose and that reasonable assurance can be placed on the adequacy and effectiveness of the systems of governance operated by the council.

### Prevention and detection of fraud

**72.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.

**73.** We noted that the Corporate Fraud Policy is out of date and in the process of being updated. There is training and supporting policies in place to assist staff while the updates are taking place. However, there is a risk that some staff may not be fully aware of the fraud and financial management procedures if they have not attended training or read all the supporting policies.

**74.** Based on the evidence reviewed by us, we concluded that, with the exception of the point noted in paragraph 69, the council has adequate arrangements in place for the prevention and detection of fraud.

## National Fraud Initiative

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

**76.** The latest position on NFI investigations by the council is summarised in [Exhibit 7](#). The NFI secure website lists a total of 6,532 data matches with 1,474 of these classed as 'recommended' matches (high risk) for investigation.

## Exhibit 7

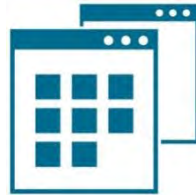
### National Fraud Initiative

**Total number of matches**



**6,352**

**Number recommended for investigation**



**1,474**

**Completed/closed investigations**



**445**

Source: NFI website August 2017

**77.** Matches are followed up by the Counter Fraud Team and service departments. We assessed the council's approach to monitoring, investigating and reporting NFI matches throughout 2016/17 and found it was adequate. Progress on the investigation of NFI matches from the 2016/17 has been slower than previous years, with only 445 closed/completed as at 24 August 2017. Management should ensure that there is sufficient resource to complete the NFI exercise.

**78.** Responsibility for the investigation housing benefit fraud was transferred to Department for Work and Pensions Single Fraud Investigation Service (SFIS) in March 2016. All matches relating to housing benefit had been reviewed as at June 2017 and passed on to the SFIS team.

**79.** Throughout 2016/17, updates on the progress of NFI investigations were reported to the Audit, Scrutiny and Petitions Board on a quarterly basis. Following the restructure of policy boards, NFI updates are reported to the Audit, Risk and Scrutiny Board.

**80.** Overall, we are satisfied that the council are fully committed to NFI.

# Part 3

## Financial sustainability



### Main judgements

The council has made effective use of reserves to support its medium term financial planning. It has built up significant reserves over a number of years and these are earmarked for specific purposes and aligned to the council's strategic objectives. Like many councils, Renfrewshire faces a significant funding gap in the medium term.

The council has identified that savings of £16 million to £27 million will be required each financial year in the period to 2020. This means the council will need to save around £56 million in the period from 2017/18 to 2019/20. This is a mid range estimate but could vary between £46 million and £80 million.

To meet future challenges, the council needs to implement its medium and long-term workforce strategy and organisational development strategy. This will be critical to managing how future services are delivered.

### Financial planning

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

**82.** Renfrewshire Council has a strong focus on financial planning. In addition to preparing an annual budget, the council also creates a 3-year plan in the form of a Financial Outlook Report. The medium-term plans also incorporate scenario planning, which highlights the best and worst case outcomes for the council.

**83.** The Financial Outlook Report 2017/18 – 2019/20 highlights that savings in the region of £16 million to £27 million will be required each financial year in the period to 2020. This means the council will need to save around £56 million in the period from 2017/18 to 2019/20. This is a mid-range estimate. Optimistic and pessimistic scenarios are £46 million and £80 million respectively.

**84.** In recent years the council has achieved most of its savings through its Debt Smoothing Strategy, staff leaving through voluntary redundancies and early retirements arising from the BCCP.

**85.** The council recognises that in order to manage future budget pressures it will need to make significant changes in how it delivers services.

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

## Funding position

**86.** The council approved its 2017/18 budget in February 2017. The budget was set at £385.650 million, with a breakeven position projected for the year. This incorporated the use of £2.350 million of reserves from the Capital Investment Fund.

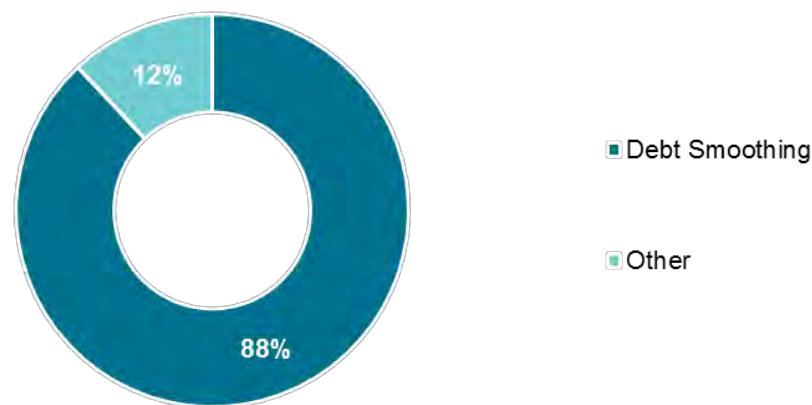
**87.** The council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of service provision and reductions in central government funding.

**88.** The 2017/18 budget incorporates £19.815 million of anticipated savings, £17.410 million of which are to be achieved from the debt smoothing strategy. As illustrated by Exhibit 9, this represents a significant portion of planned savings.

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## Exhibit 9

### Proportion of savings to be achieved through debt smoothing strategy in 2017/18



Source: Renfrewshire Council 2017/18 budget

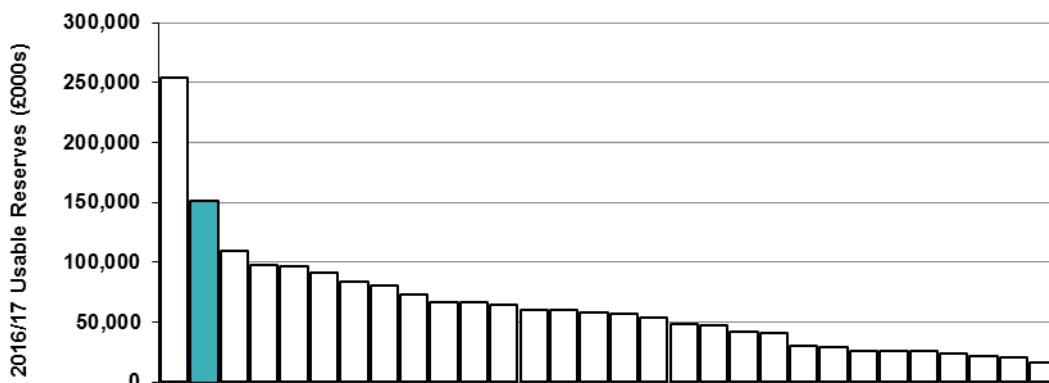
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## Reserves

**89.** One of the key measures of the financial health of a local authority is the level of reserves held. Renfrewshire Council has increased its reserves each year since 2013/14, and has a high level of reserves in comparison to almost all other councils in Scotland, as shown in [exhibit 9](#). The majority of reserves funds are statutory or ring-fenced and aligned to future spending plans and strategic objectives.

## Exhibit 9

### Comparison of councils' usable reserves across Scotland in 2016/17



Source: Audit Scotland database

**90.** The level of usable reserves held by the Renfrewshire Council increased by £9.157 million from £141.376 million in 2015/16 to £150.533 million in 2016/17. The most significant movements contributing to the increase 2016/17 in reserves were:

- an increase of £25.478 million in the investment capital fund, maintained to fund future capital spend in line with the council's Corporate Asset Strategy and to support the debt smoothing strategy
- a decrease of £12.652 million in the general fund reserve balance related to the release of ring-fenced elements to fund projects (for example, the Waste Management Strategy and Invest in Renfrewshire)
- a decrease of £6.773 million in the housing capital fund, this was used to fund debt repayments.

**91.** Other than the investment capital fund, which is being maintained for future capital investment and debt smoothing, the general fund reserve is the largest reserve (£48.726 million). Although the general fund reserve has no restrictions on its use, £41.661 million has been ring-fenced for future expenditure plans. The remaining £7.065 million is maintained to provide a contingency fund to meet unexpected expenditure.

**92.** The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy specifies that uncommitted reserves should be between 1% and 2% of net revenue and not be lower than £7 million. The level of uncommitted general fund reserves as at 31 March 2017 was £7.065 million (1.9% of net revenue), which is within the limits set out by the strategy.

**93.** We consider the overall level of usable reserves held by the council are reasonable. As demonstrated at [Exhibit 9](#) the council's usable reserves are high compared to other Scottish councils, however these have largely been retained for specific purposes in line with Renfrewshire Council's long term strategy.

## Workforce planning

**94.** The council's Organisational Development Strategy 2016-19 was approved in December 2015 but is only in the early stages of implementation. This strategy sets

out how the council will provide the skills and money it needs to develop as an organisation. The strategy focuses specifically on improving how the council will:

- manage and develop its performance
- plan its workforce needs
- ensure its workforce has the right skills, are motivated, feel part of the organisation and are adaptive.

**95.** Audit Scotland's [\*Local government in Scotland – performance and challenges 2017\*](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**96.** Between 2010/11 and 2015/16 the council reduced staff numbers by 1,150. This was part of the council's BCCP through voluntary early retirement and voluntary redundancy. The council has also redesigned services, that is, changing how services are provided and integrated. These changes have had a substantial impact on some services with a reduction of 369 staff within Community Resources.

**97.** The council's previous approach of voluntary redundancy and early retirement was effective in supporting the delivery of change projects to generate the financial savings required, although it has reduced capacity in some services.

**98.** The BVAR reported that the council did not have a strategic workforce plan in place and the council recognised that it needed to fully develop its workforce planning approach over the longer term. On 30 August the council took its Council Workforce Plan 2017-2020 to the Finance, Resources and Customer Services Policy Board for approval.

**99.** We will review the workforce plan as part of our 2017/18 audit.

# Part 4

## Governance and transparency



### Main Judgements

**In the past, the operation and performance of the Audit, Scrutiny and Petitions Board has been weak. Following the 2017 local elections, the council has reviewed and revised the remits of its committees and established the Audit, Risk and Scrutiny Board.**

**The council has sound governance arrangements in place for how it conducts business but there has been a lack of scrutiny and challenge at policy boards.**

**The council could improve performance reporting arrangements for Renfrewshire Leisure Limited.**

**Historically councillors have not made the most of the training and development opportunities available to them.**

### Governance arrangements

**100.** The Accounts Commission's report *How councils work: Roles and working relationships: are you getting it right?* August 2010, noted that in successful councils, there are '...professional and constructive relationships between councillors'.

**101.** In Renfrewshire Council working relationships between officers and councillors are good, respectful and constructive. However, the council operates in a challenging political environment and there have been difficult working relationships between the main political parties. As in other councils, relationships between political groups are under increased pressure from the need to take tough decisions on future spending and how best to deliver services.

**102.** Council meetings have been highly politicised at times and increasingly conducted through motions and amendments to normal business. While this has not prevented the council conducting its business or progressing its agreed priorities and objectives it can distract from constructively scrutinising how services are performing and from delivering outcomes.

**103.** The duty of Best Value falls on the council, not the administration. Cross-party working, which has taken place in the past, has been limited. To continue to progress the council priorities it is essential that:

- the council creates a culture and structure that helps to develop shared values among all councillors
- councillors demonstrate these in the way they conduct council business.

**104.** This will provide stability and continuity in delivering the council priorities in the longer term. Furthermore, the council should ensure that its values and culture

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.



support scrutiny and particularly constructive challenge. This is important to good governance, in particular to ensuring all councillors play their role in accountable decision-making, policy making and scrutiny.

**105.** The council has sound governance arrangements in place. It conducts its main business through the council meeting, Leadership Board, a number of policy boards and the newly formed Audit, Risk and Scrutiny Board (formerly the Audit, Scrutiny and Petitions Board). All boards have members from the different political parties in proportion to the council's political make up. The convenors of all policy boards are members of the administration.

**106.** The council regularly reviews its governance arrangements to take account of changes to the way that services operate and of new partnership arrangements such as the integrated Health and Social Care Joint Board.

**107.** The council has recently taken steps to improve how its former Audit, Scrutiny and Petitions Board operated and performed. Internal and external audit are important elements of the system of accountability in any public body. In councils, audits help councillors scrutinise how services are performing. Until May 2017 the Audit, Scrutiny and Petitions Board acted as the council's audit committee. Its work focused largely on petitions from members of the public, with a lack of focus on scrutinising and considering audit reports.

**108.** While we recognise that petitions provide an important means of connecting the community and council, combining this with audit and scrutiny has not been effective.

**109.** The convener of the previous Audit Scrutiny and Petitions Board was a member the administration. Good practice recommends that the convener should be from the opposition or, in some instances, independent of the council. This arrangement had been in place for several years and has been highlighted in previous Audit Scotland annual audit reports as an area of non-compliance.

**110.** Following the 2017 elections, the council has reviewed its committees' remits. It has established an Audit, Risk and Scrutiny Board and operates a separate petitions committee. The Audit, Risk and Scrutiny Board is chaired by an opposition councillor.

### Renfrewshire Leisure Limited

**111.** The council has a controlling interest in one ALEO, Renfrewshire Leisure Limited (RLL). In 2014 Renfrewshire Leisure became a company limited by guarantee with the council as the sole member. In 2015 cultural services were transferred from the council to Renfrewshire Leisure.

**112.** One consequence of using more complex structures involving ALEOs in delivering services is that the public may be less clear about who is responsible for services. Maintaining transparency by having arrangements in place that are easy for people to get access to and understand is a key objective in good governance. This is detailed in the Accounts Commission's *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* report.

**113.** It is good practice that councils should monitor how ALEOs perform against both financial and service expectations. The council's service level agreement, setting out the level of services it expects from RLL, is not publicly available. The performance report to the Leadership Board in November 2016 did not provide enough performance information to confirm that RLL was achieving the targets set in the service level agreement.

**114.** Renfrewshire Council should be more transparent in the information that is publicly available about its support for RLL. The Annual Business Plan for RLL is an exempt paper which is considered at the Leadership Board. An exempt paper means the press and public are excluded, preventing public debate or challenge.

**115.** The council should review its governance arrangements to ensure they provide for a relationship with RLL that is clear, independent, and more easily understood by the public.

## Training and development for councillors

**116.** It is important that councillors ensure they have the skills and knowledge to perform their role. Following the 2017 council elections a number of new members were elected. The council provided a comprehensive training and induction programme for new councillors including:

- orientation for new members including sessions on 'getting connected' with information and communications technology, introduction to communications, marketing and media protocols and social media, a strategic overview of the council, standards and ethics and councillors' roles and responsibilities
- event opportunities for all councillors include sessions on meeting council partners, equalities and an introduction to services. They also cover details of City Deal public consultation events that are taking place.
- events and opportunities for board members. These are for councillors appointed to specific policy boards and for members of joint boards and outside bodies.

**117.** While there are arrangements in place to provide training, historically councillors have not made the most of the training and development opportunities available to them.

## Management commentary, annual governance statement and remuneration report

**118.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**119.** Renfrewshire Council publishes a range of performance information to allow interested stakeholders to assess how the council is performing. While the information is signposted within the annual accounts there is scope for the council to improve how this information is captured, reported and explained within the management commentary. ([Appendix 1 - Action Plan, point 2](#))

**120.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

## Internal audit

**121.** Internal audit provides senior management and elected members with independent assurance on the council's overall risk management, internal control and corporate governance processes.

**122.** The internal audit function is carried out in -house. As outlined in our Annual Audit Plan, we carried out a formal review of the internal audit service and concluded that it, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

**123.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. While we did not place reliance on their work regarding our audit of the council's financial statements, we placed formal reliance on internal audit's work as part of our wider dimension work for NFI arrangements.

**124.** Internal Audit report progress of the work contained in their annual audit plan to each meeting of the Audit Committee. Despite working with reduced capacity during the year, internal audit completed 91.8% of the 2016/17 plan against a target of 95%, and provided assurance on the council's overall framework of control for the year to 31 March 2017.

**125.** In March 2017, the council's internal audit function received an external assessment report conducted by West Lothian Council: Audit, Risk and Counter Fraud Unit. A number of recommendations were made including the following:

- more detailed information should be provided to the board, particularly where the Chief Auditor concludes that the assurance level is limited
- reporting details of the specific outstanding recommendations to the board, particularly those ranked 'A', the highest category of importance.

## Transparency

**126.** Transparency means that the public, in particular local residents have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

**127.** There is evidence from a number of sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council and other policy board meetings. Minutes of these board meetings and supporting papers are readily available on the council's website.

**128.** The council webcasts its main council meetings and all agenda papers and minutes are on the council's website and made available in the public gallery and its reception. In addition the council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.

**129.** The council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the council.

**130.** Overall, we concluded that the council conducts its business in an open and transparent manner.

## Integration of health and social care

**131.** Renfrewshire Integration Joint Board (IJB), which provides health and social care services, has been fully operational since April 2016. The IJB approved its Strategic Plan 2016-19 in March 2016, setting out its objectives and priorities over the three-year period.

**132.** Renfrewshire was the first council to have an integration scheme in place with NHS Greater Glasgow and Clyde (NHSGGC). Governance arrangements, such as systems for managing, monitoring and scrutinising the IJB's business and finances are well developed. Processes are in place to allow the Chief Officer and the Chief Financial Officer to discuss significant issues with partners and the senior management of partner organisations.

**133.** At its meeting on 10 March 2017, the IJB approved the 2017/18 council adult social care budget allocation but rejected NHSGGC's proposed 2017/18 health budget allocation on the basis that it did not meet the Scottish Government

direction that the level of budget to be allocated is maintained at 2016/17 cash levels. This was in common with the other IJB's within the health board's area.

**134.** It is anticipated that the public sector in Scotland will continue to face a challenging medium term financial outlook. This will potentially have significant implications for Renfrewshire IJB's parent organisations and therefore the delegated Health and Adult Social Care budgets.

## Local scrutiny plan

**135.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to management in May 2017 and reported on our web site.

**136.** The LAN concluded that no scrutiny risks were identified which require specific scrutiny work by the LAN in 2017/18. This is a positive position for the council and is consistent with the LAN view last year. Scrutiny activity undertaken in the last 12 months was either part of routine ongoing inspection work, or part of national activity. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

## Equalities

**137.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**138.** We reviewed the current Equality Outcomes and Mainstreaming Progress Report (April 2017) and concluded the council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the council
- report on progress made towards achieving equality outcomes
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**139.** We concluded, on the basis of evidence reviewed, that the council is proactive in ensuring that equality is mainstreamed.

# Part 5

## Value for money



### Main judgements

**The Best Value audit found the council has a clear and ambitious vision for Renfrewshire to revitalise the area's economy and address poverty and inequality. It recognises that this vision can only be achieved over a long period of time.**

### Best Value

**140.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Renfrewshire Council was published on 31 August.

**141.** The BVAR report said the council has a clear and ambitious vision for Renfrewshire to revitalise the area's economy and address poverty and inequality. It recognises that this vision can only be achieved over a long period of time. The council's partners share this vision and the Council Plan, management structures and performance management arrangements are well aligned with it. Other key messages were the council:

- has maintained a steady pace of change, supported by effective leadership that has allowed it to improve the way it plans, manages and delivers its business. It has made these improvements while dealing with financial constraints and challenging socio-economic issues such as high levels of economic deprivation, low population growth and an increasing elderly population
- has steadily improved how its services perform. Renfrewshire's overall performance is improving and is comparable to similar councils within its family group. The council has implemented initiatives which have been delivered with partners and are focused on making a difference at a local level
- and its partners are good at working with, and involving, communities and will need to continue to work together on joint priorities and to strengthen partnership working. Given the likely funding gaps in future budgets, the council will need to work with people who use council services to inform decisions about how those services will be delivered
- has a good record of delivering services differently. It works well with partners and has developed a number of new approaches to how it delivers services. To meet future challenges, it needs to agree a medium and long term workforce strategy and implement its organisational development strategy. This will be critical to managing how future services are delivered.

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

## Community engagement

**142.** The council regularly asks for local communities' views on a range of issues. It routinely uses its public services panel to seek opinions on how council services perform. It also has five local area committees whose business arrangements are designed to consult and inform the public about local services.

**143.** Engage Renfrewshire is an important partner for the council and other public bodies, the organisation brings together local community groups, charities and community based organisations. It helps in establishing links between third sector organisations and communities with the council, NHS and other partners. Its aim is to promote the views of local people. The Chief Executive of Engage Renfrewshire chairs the Renfrewshire Forum for Empowering Communities. This is one of the six community planning thematic Boards and has been operating since May 2013. It is made up of senior third sector managers operating in Renfrewshire. The Forum receives updates at its meetings from Engage Renfrewshire representatives who sit on each of the thematic boards.

**144.** Engage Renfrewshire and the Forum for Empowering Communities are leading on the council and its partner's preparation for aspects of the Community Empowerment Act. This act aims to give communities greater influence or control over things that matter to them. As well as the Community Planning Conference, it has held workshops with local community groups and is preparing a localised toolkit to raise awareness of the provisions of the Community Empowerment Act among local community groups.

**145.** The council provides the opportunity for citizens to give their views to the council to try and change things through its petitions process. Petitions allow people to raise concerns with the council either as individuals or on behalf of an organisation.

**146.** The council keeps in touch with its 21 community councils on a regular basis. Its housing service uses a wide range of ways to involve and inform tenants and residents about how the service is performing. The council also has links with local communities through its partnership arrangements and works closely with Engage Renfrewshire.

**147.** The council plans to develop further the way it engages with local people. It is carrying out a survey of the most effective ways for people to give their views and work with the council. In doing so the council should consider how it can work with partners to streamline and coordinate how they seek the views and work closely with the local communities that they all have in common.

**148.** The council has policy and procedures in place for responding to aspects of the Community Empowerment (Scotland) Act 2015. It has agreed procedures for dealing with asset transfer requests and participation requests.

## Procurement

**149.** Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015 a new assessment regime was introduced as part of the new [Procurement and Commercial Improvement Programme](#) (PCIP). It came into effect on 18 April 2016 and has includes sections on fraud awareness and prevention and, commercial acumen.

**150.** The council has effective arrangements in place for procurement and is performing well in comparison to other councils. The council's procurement team won the 2016/17 Government Opportunities Scotland Excellence in Public Procurement Awards. A 2016 assessment by Scotland Excel scored the council's overall performance at 83 per cent for leadership and governance, development and tendering, contract and purchasing processes. Scotland Excel is Scotland's

centre of procurement expertise for local authorities. Its score was the highest of the 16 councils reviewed to date and well above the average of 65 per cent.

**151.** Scotland Excel rated the council's procurement practices and procedures as "superior performance", the first council in Scotland to achieve this. The council also won a Government Opportunities (GO) Awards Scotland in 2016 for Procurement Team of the Year – Local Government and highly commended for the Procurement People of Today and Tomorrow Award.

**152.** The council incorporates community benefit clauses and requirements into all its contracts. This is formalised in the council's Sustainable Procurement Strategy and Community Benefit Strategy. These clauses aim to deliver the following activities:

- Targeted Employment and Training Initiative
- Educational Support Initiative
- Supply Chain Development Activities
- Vocational Training
- Community, Corporate Social Responsibility (CSR) and Environmental Initiatives
- Supported Business, Third Sector and Voluntary Sector Initiative
- Equality and Diversity Initiative
- Creating a Sustainable Renfrewshire.

**153.** We concluded that the council has good procurement practices in place and is committed to continuous improvement.

## Following the public pound

**154.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**155.** Increasingly councils deliver services through partnership and arms' length external organisations. Strong governance arrangements, including regular and proportionate monitoring are key for effective management of public funds.

## City Deal projects

**156.** City Deals provide city regions with the opportunity to deliver infrastructure, innovation and employment projects to improve the economic performance of the city region. The UK and Scottish governments both provide funding with councils contributing additional funding. Renfrewshire Council became part of the £1.13 billion Glasgow City Region City Deal, with seven other councils, in 2014. The council is an equal partner and plays an active role in the governance structure for managing, monitoring and scrutinising the delivery of projects. It is represented on all eight policy portfolios and takes the lead on the Glasgow City Region policy portfolio focusing on enterprise.

**157.** Three City Deal infrastructure projects are being developed in Renfrewshire, with funding of £274 million. Progress continues to be made on developing the projects and outline business cases (OBCs) are complete for the three projects.

- The Glasgow Airport Investment Area Project (GAIA) will improve roads, enabling new business sites to be built near the airport. The project will include improvements to walking and cycling links.
- The Clyde Waterfront and Renfrew Riverside Project (CWRR) includes a new opening bridge over the River Clyde between Renfrew and Yoker / Clydebank, and building the Renfrew North Development Road. Following approval of the OBCs, work will continue on developing the preferred options and progressing through the statutory processes with the aim of starting construction in spring 2018.
- The Airport Access Project (AAP), due to its importance to the overall Infrastructure Fund Programme, is designated as one of only two 'regional' projects in the programme. The project is being jointly delivered by Renfrewshire Council and Glasgow City Council. The project aims to deliver a new direct rail link between Glasgow Airport and Glasgow Central Station, stopping at Paisley Gilmour Street station. Due to the technical complexities of this project, the AAP has a significantly longer development process. Construction is currently scheduled to start in 2022 and, the project is expected to be finished and running by 2025.

## Performance management

**158.** The council's performance management arrangements were considered in our Best Value report issued in August 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.

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

**160.** The council reports information on its performance through its website. It also prepares an annual performance report, *It's all about you*, based on its statutory performance indicators. The council recently sought feedback on its performance reporting to the public. As a result, the council has refreshed how it presents this, to make it easier to find and read. It is also available in multiple languages and formats.

**161.** *It's all about you* focuses on a select number of indicators that the public have told the council they most want to know about. The council reports performance against the full set of 68 indicators in the Local Government Benchmarking Framework to the Audit, Risk and Scrutiny Board. While this more detailed information is in the public domain through board reports and service improvement outturn reports it is not easy for people to find.

**162.** The council should consider how it can make details of its performance as well as other public reports including *It's all about you* easier for people to find, through better signposting on its website.

**163.** The council produces a magazine which goes out four times a year to over 80,000 households. This generally features an article containing information about service performance and achievements. The latest report notes that 70 per cent of customers are satisfied with the services the council provides.



## Overview of performance targets

**164.** Renfrewshire Council's performance improved slightly between 2011/12 and 2015/16. In 2015/16, just under half (48 per cent) of its performance indicators were in the upper two quartiles. The council also reduced the number of indicators that were in the bottom quartile between 2011/12 and 2015/16.

**165.** The Accounts Commission's recent report, [Local government in Scotland: Performances and Challenges 2017](#) noted that councils' performance over the last five years has been maintained or improved. Renfrewshire Council's performance mirrors this trend, showing improvements across the majority of the indicators.

**166.** The Local Government Benchmarking Framework allows councils to compare themselves to the Scottish average. It also groups councils with similar profiles into family groups based on factors such as population density and levels of deprivation. This allows similar councils to compare and benchmark performance. Compared with the Scottish average for 2015/16, Renfrewshire Council performs close to the average for the majority of selected indicators. Relative to its family group, Renfrewshire tends to sit in the middle ground for performance. In comparison with Scotland as a whole, there has been a mixed picture in terms of the rate of relative improvement between 2010/11 and 2015/16.

## Statutory performance indicators (SPIs)

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

**168.** For 2016/17 two (SPIs) were prescribed:

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

**169.** We reviewed the council's arrangements for collecting, recording and publishing data in 2016/17. Information is publicly available on the council website, with the main SPI report published as well as a summary version. 'It's all about you' provides a graphical and pictorial presentation of performance data. However there is limited reference to performance in the council's Annual Report.

**170.** The Annual Report should include a summary position regarding the council's performance together with relevant detailed performance information. This would improve the accessibility of performance information and help to demonstrate greater transparency by the council.

## National performance audit reports

**171.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 4](#).

**172.** Arrangements are in place for the council to consider national reports. These are presented to the Audit, Risk and Scrutiny Board and members are made aware of key issues. The council does not routinely report the council's position in respect of the key issues reported. Action taken in response to reports is dependant on the nature of the national report and the service to which it relates.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
18	<p><b>1. Overpayment of Leavers</b></p> <p>We noted that approximately 10% of staff who left in 2016/17 were incorrectly overpaid after their employment ceased.</p>	<p>A process should be put in place to ensure that leavers are removed from the payroll immediately when they cease to be employed by the council.</p>	<p>Regular reports analysing overpayments will be discussed with service managers with a view to targeted process redesign and management action where required.</p> <p>Payroll Manager December 2017</p>
26	<p><b>2. Management Commentary</b></p> <p>The management commentary in the annual accounts has been prepared in line with statutory guidance, however information provided on council performance is limited.</p>	<p>Management should expand the scope of the management commentary in the 2017/18 annual accounts to make it clearer to the reader how the council performed in the year.</p>	<p>The council will review the commentary in line with best practice and provide additional performance information as appropriate.</p> <p>Head of Finance June 2018</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We did not identify evidence of management override of controls as a result of the assurance procedures we carried out.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice</p> <p>Renfrewshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>Particular areas of concern include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by the council in delivering services.</p>	<p>The council has well developed processes for the authorisation, separation of duties and workflow associated with income and expenditure. Clear schemes of delegation and authorised signatory databases are regularly updated. Financial systems have authorisation process in-built to ensure the risk of fraud is minimised. The audit plan which internal audit complete will include a range of systems testing across income and expenditure processes, with recommendations being monitored for implementation.</p> <p>The council has established a Counter Fraud Team who have been actively raising awareness of both financial and non-financial fraud risks through a series of training events targeted at key personnel.</p>	<p>We assessed the design of key controls in place at the council and did not highlight any issues that would result in an increased risk of fraud over income or expenditure.</p> <p>We carried out substantive (sample) testing over all areas of income and expenditure, including council tax, non domestic rates and other income. We did not identify any evidence of fraud.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Capacity of finance function</b></p> <p>The council has made significant changes to its finance function. There is now a separate financial accounting and management accounting function. The finance support function has also been centralised under the Head of Finance with business partners embedded throughout all services. There is a risk that the restructuring of the finance function may affect the capacity of the council to prepare timely, accurate and Code compliant annual accounts. The 2016/17 Code requires significant changes to the format of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement.</p>	<p>The finance team operate to a clearly understood year end timetable and procedures, which include responsibilities for particular aspects of the annual accounts completion. Throughout the year finance staff attend CIPFA FAN events to ensure a clear understanding of any changes to the Code, in addition to examining the updated Code, practitioner guidance notes and Audit Scotland technical bulletins.</p>	<p>The annual accounts were received in line with the agreed timetable, were of a good standard and included the required updates resulting from the change to the 2016/17 Code.</p> <p>During the audit we noted that a number of year end processes had been delayed due to staffing pressures.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>4 Financial planning</b></p> <p>The council has identified a need to make savings of £20 million to £30 million in 2017/18 and further recurring annual revenue savings of £16 million to £27 million per annum for the two year period 2018/19 and 2019/20. A significant programme of work is underway to develop options as part of its Better Council Change Programme. Making these additional savings will be challenging given the significant service reforms and workforce reductions implemented to date. There is also a risk the level of planned budget savings will adversely affect the level and quality of service provision.</p>	<p>The Council has undertaken a programme of significant change in recent years to address the financial constraints faced by local government. These challenges will continue over the medium term, with a further phase of the Better Council Change Programme currently being developed in order to continue to try and deliver council services within the available resources. The Council has recently agreed a range of financial planning principles as part of a medium term financial plan which will support the delivery of further savings.</p>	<p>The council exceeded the phase 1 savings target on the Better Council Change Programme in 2016/17 and is projecting a breakeven position in 2017/18, which incorporates £19.815 million of planned savings.</p> <p>While medium-long term savings plans have been developed, the council should agree a medium and long-term workforce strategy and implement its organisational development strategy. This will be critical to managing how future services are delivered.</p>
<p><b>5 Capacity of internal audit service</b></p> <p>The internal audit plan is currently 4% behind target. This is mainly due to an unexpectedly high number of investigations and the work to support the design of the council's new Enterprise Resource Planning (ERP)</p>	<p>Completion of the internal audit plan is monitored on a monthly basis. Additional resources have been identified to close the current shortfall to ensure the audit plan completion target is achieved prior to the presentation of the Chief Auditor's annual opinion which informs the Annual</p>	<p>Internal audit completed 91.8% of there planned activity in 2016/17 (target 95%). The risk that outstanding work may impact the ability internal audit to complete the 2017/18 plan was highlighted in an interim letter to management.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>system. There is a risk the capacity of the internal audit section is not sufficient to provide the assurances required by the Chief Executive.</p>	<p>Governance Statement.</p>	
<p><b>6 Effectiveness of Audit, Scrutiny and Petitions Board</b></p> <p>The Audit, Scrutiny and Petitions Board act as the council's Audit Committee. The Board has oversight of:</p> <ul style="list-style-type: none"> <li>• audit</li> <li>• corporate governance</li> <li>• risk management</li> <li>• monitoring and reviewing service delivery performance, policies and practices</li> <li>• community leadership</li> <li>• standards and ethics</li> <li>• written intimations</li> <li>• petitions.</li> </ul> <p>The focus of the Board is substantially on petitions. There is a risk that the council's current governance arrangements for audit and scrutiny do not allow members to adequately focus on audit, corporate governance and risk management.</p>	<p>The council will review existing governance arrangements following the local elections in May 2017.</p>	<p>Following the elections in May 2017 the council committees and boards were reorganised. The audit and petitions responsibilities are now included within the remit of separate boards.</p> <p>Audit is covered by the Audit, Risk and Scrutiny Board, which has oversight of:</p> <ul style="list-style-type: none"> <li>• audit</li> <li>• corporate governance</li> <li>• risk management</li> <li>• monitoring and reviewing service delivery performance</li> <li>• policies and practices</li> <li>• community leadership</li> <li>• standards and ethics</li> </ul> <p>We will follow up on the effectiveness of the new board in the 2017/18 audit.</p>

# Appendix 3

## Summary of unadjusted errors

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £0.100 million.**

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3 \(page 11\)](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet		Movement in Reserves Statement	
		Dr £m	Cr £m	Dr £m	Cr £m	Dr £m	Cr £m
1	Non Current Assets (2015/16)			0.55			
	Accruals (2015/16)				0.55		
2	Accruals (2016/17)			0.55			
	Non Current Assets (2016/17)				0.55		
<b>Net impact</b>		<b>0</b>	<b>0</b>	<b>0.55</b>	<b>0.55</b>	<b>0</b>	<b>0</b>





















**Notes:**

Both entries correct for the recognition of LED streetlight assets in the wrong financial period

# Appendix 4

## Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

### Local government relevant reports

[The National Fraud Initiative in Scotland - June 2016](#)

[Social work in Scotland - September 2016](#)

[How councils work - Roles and working relationships in councils - November 2016](#)

[Local government in Scotland: Financial overview 2015/16 - November 2017](#)

[Local government in Scotland: Performance and challenges 2017 - March 2017](#)

# Renfrewshire Council

## 2016/17 Annual Audit Report

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