

Inverclyde Council

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

18 November 2021

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Key messages

2020/21 annual accounts

- 1 Our audit opinions on the annual accounts of the council and its group are unmodified
- 2 The impact of staffing changes and additional accounting requirements of Covid-19 resulted in delays to the unaudited accounts and working paper package
- 3 Adjustments were made in the audited accounts to the Covid-19 grant treatment; to correct non-current assets balances; and for the re-classification of Inverclyde Leisure as a subsidiary

Financial management and sustainability

- 4 An underspend of £2.4 million was achieved including efficiency savings of £1.1 million
- 5 The Council received £26 million additional funding for Covid-19 and paid out a further £20 million in grants to businesses and individuals
- 6 General Fund reserves remain high and have increased by £6 million due to late Covid-19 funding
- 7 The Financial Strategy has incorporated the expected impact of Covid-19, but medium to long term savings plans have still to be fully developed
- 8 The Council has implemented an Organisational Recovery Plan for 2021-23

Governance, transparency and Best Value

- 9 The governance arrangements introduced in response to the pandemic are appropriate and operated effectively
- 10 Management changes have been significant
- 11 The council has an appropriate and effective best value framework in place
- 12 City Deal projects have suffered further delays

Introduction

1. This report summarises the findings arising from the 2020/21 audit of Inverclyde Council (the council) and its group. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the 27 April 2021 meeting of the Audit Committee. This report comprises the findings from:

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

2. The main elements of our audit work in 2020/21 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 partnership working and community engagement
- consideration of the four audit dimensions

Adding value through the audit

3. 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 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. 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.

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

6. 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.

7. 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.

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

9. 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.

10. 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

11. 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 2020/21 audit fee of £259,830 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. 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.

1. Audit of 2020/21 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 staffing changes and additional accounting requirements of Covid-19 resulted in delays to the unaudited accounts and working paper package.

Adjustments were made in the audited accounts to the Covid-19 grant treatment; to correct non-current asset balances and for the re-classification of Inverclyde Leisure as a subsidiary

Our audit opinions on the annual accounts are unmodified

13. The accounts for the council and its group for the year ended 31 March 2021 were approved by the Council on 18 November 2021. As reported in the independent auditor's report:

- 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.

The Covid-19 pandemic and staff changes impacted the audit process

14. Throughout the audit process there has been on-going discussions with council staff and their support enabled the audit to proceed, however the limitations of remote working did impact on our audit timetable and the audit took longer.

15. A special Council meeting was originally arranged for 28 October 2021 to approve the audited accounts. However, due to significant issues with the fixed asset register, due to loss of key finance staff, the approval process was moved to 18 November 2021 to allow sufficient time to resolve the issues.

16. The unaudited annual report and accounts were not received in line with our agreed audit timetable of 24 June 2021. These were received on 8 July 2021 with working papers received gradually over the following weeks into September. This was due to key finance staff changes directly affecting the preparation of financial statements and further challenges presented by Covid-19 funding and the revaluation exercise.

17. The working papers provided to support the unaudited accounts were of a good standard. As we were unable to access council systems directly, we also often had to rely more on council staff to obtain and present audit evidence. This was at a time when a number of council staff were working remotely and also dealing with the significant additional pressures from Covid-19.

There were no objections on the annual accounts

18. 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 2020/21 accounts.

Overall materiality was £3.8 million

19. 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.

20. 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.

21. 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	£3.8 million
Performance materiality	£1.9 million

Materiality level	Amount
Reporting threshold	£100,000

Source: Audit Scotland

Our audit work addressed the risks of material misstatement

[22. Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Accounts were revised to reflect our significant findings

[23.](#) International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. 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 the financial statements

Issue	Resolution
<p>1. The fixed asset register contained errors</p> <p>The vast majority of the council's assets were revalued in 2020/21. However, initially the fixed asset register did not correctly reflect these changes. There were also assets in the register that were redundant and required adjustment or disposal, that were identified on review of the revaluation records. The single entity register also incorrectly included common good assets.</p> <p>These issues arose over a number of years since the previous valuation.</p>	<p>The audited accounts have been adjusted to correctly reflect or remove erroneous amounts. This affected gross book value, accumulated depreciation, the capital adjustment account and revaluation reserve. This has resulted in an overall decrease in PPE values of £15.1 million.</p> <p>The council has not processed a prior year adjustment due to the inability to identify specific errors to specific years, since the last revaluation. An explanation has been included in note 7 of the audited accounts.</p> <p>The council should complete a management review of its fixed asset register at each year end and reconsider its approach to five-year programme of revaluation.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>

Issue	Resolution
<p>2. Accounting treatment of Covid grants</p> <p>The council treated all grants received from the Scottish Government as if it was the principal in the transaction and therefore recognised the income and expenditure in the unaudited accounts. LASAAC guidance identified that the majority of Covid-19 grants should have been treated as an agency arrangement: with the council acting as agent for the Scottish Government, as principal.</p>	<p>Audited accounts were updated to reflect the agency arrangement in accordance with guidance. £18.4 million was removed from income and expenditure. Note 23 now includes reference to the agency income received and distributed by the council for 2020/21.</p>
<p>3. Group accounts</p> <p>The council completed its annual assessment of the group boundary and concluded that the financial results of Inverclyde Leisure should be consolidated on an associate basis within the group statements in the 2020/21 annual accounts. Our review, prompted by the additional support required during Covid-19 and based on the Funding Agreement, identified that the Trust meets the definition of a structured entity. This describes an entity that has been designed so that the relevant activities are directed by means of contractual arrangements..</p>	<p>Inverclyde Leisure's classification has been amended and is now included in the Group Financial Statements as a 100% subsidiary.</p>
<p>4. Accounting treatment of PPE and testing kits</p> <p>Due to the late publication of guidance and availability of information, unaudited annual accounts did not account for Covid-19 PPE equipment and testing kits. These were supplied, free of charge, to local authorities in 2020/21 by National Services Scotland (NSS).</p> <p>NHS NSS data on PPE issued to community hubs were not agreed until the end of June.</p> <p>The council received £1.4 million of stock based on NSS records.</p> <p>LASAAC guidance to practitioners in July 2021 advised on the accounting treatment of PPE and testing kits.</p>	<p>Audited accounts were updated to recognise the receipt and use of this equipment in 2020/21. In accordance with guidance, an additional £0.3 million of income and expenditure is disclosed in audited accounts, on a principal basis. The other £1.1 million has been treated on an agency basis as this was provided to and used by external care providers. There was no net impact on council reserves and balances.</p>
<p>5. Non-Current Asset Valuations</p> <p>The council operates a five-year rolling programme of revaluations where land and</p>	<p>In future years management need to review whether carrying amounts have varied materially at the year end. This might include indexation of property asset valuations</p>

Issue	Resolution
<p>buildings and most other assets are valued in a single exercise at five-yearly intervals. The latest valuation date was 31 March 2021. No indexation or other adjustment is applied in the intervening years leading to significant movements in value every five years. Per the Code of Practice, “non-current assets are normally revalued once every five years for each class of assets, provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.”</p>	<p>annually based on BCIS movements assessed by the valuer or a rolling programme sampling assets from each major asset class.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p>
<p>6. Management commentary</p> <p>We reported in 2018/19 and 2019/20 that the management commentary that accompanies the financial statements should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed. Although a number of improvements have been made since 2018/19, full compliance with the recommendations in the Local Government Overview (para 59 in 2019/20 report) has not been demonstrated in relation to performance against budget.</p>	<p>The council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission’s Local Government Overview,</p> <p>Recommendation 3 (refer Appendix 1, action plan)</p>
<p>7. Council tax Long-Term Empty provision</p> <p>Following the Council’s decision not to appeal against a Renfrewshire Valuation Appeals Committee finding and the receipt of legal advice, officers within Finance continue to recalculate the Council Tax bills for all affected properties. The latest worst-case scenario is an estimated reduction in Council Tax bills of £705,000 over the 10-year period of which £101,000 relates to the current financial year.</p>	<p>Audited accounts were adjusted to increase the provision and reduce the General Fund Reserve. The provision in the audited accounts is for £606,000.</p> <p>The Council’s decision not to appeal and subsequent legal advice has been reflected in the audited financial statements.</p>
<p>8. Estimations and judgements disclosure</p> <p>Note 37 in the annual accounts relates to assumptions made about the future and other major sources of estimation uncertainty in relation to property, plant, equipment and pension liabilities. The current disclosures in note 37 do not include carrying amounts, the sensitivity of carrying amounts to the</p>	<p>The disclosures for property, plant and equipment and pension liabilities, should be reviewed in line with Audit Scotland’s Good Practice Note – Judgements and Estimates.</p> <p>Recommendation 4 (refer Appendix 1, action plan)</p>

Issue	Resolution
assumptions (including the reasons of sensitivity), the expected resolution of the uncertainty and the range of reasonably possible outcomes within the next financial year, or an explanation of the changes made to past assumptions.	

Source: Audit Scotland

Misstatements of £15.7 million were adjusted in the audited accounts, but we did not need to further revise our audit approach

24. Misstatements adjusted in the audited accounts decreased overall net income in the Comprehensive Income and Expenditure Statement by £15.7 million. In the group accounts the overall adjustments decreased net assets in the Group Balance Sheet by £17 million. The significant issues are identified in [Exhibit 2](#).

25. 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 revaluation of the council's assets. We concluded that these arose from issues that have been isolated, identified and corrected in their entirety and do not indicate further systemic error.

26. 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.

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

Limited progress was made on prior year recommendations

28. The Council has completed one of our three prior year recommendations, with the remaining two in progress. For actions not yet implemented, revised responses and timescales have been agreed with management, and are 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

An underspend of £2.4 million was achieved including efficiency savings of £1.1 million

The Council received £26 million additional funding for Covid-19 and paid out a further £20 million in grants to businesses and individuals

General Fund reserves remain high and have increased by £6 million due to late Covid-19 funding.

Efficiency savings of £1.1 million were achieved in 2020/21

29. The 2020/21 budget was approved by the council in March 2020. The budget was set at £199 million after closing an initial funding gap of £6.7 million through previously agreed savings and a 3% council tax increase (£0.9 million). The approved proposals have also resulted in a further general increase of 3% in fees and charges, as well as the loss of 18.5 FTE posts.

30. The council agreed efficiency savings of £1.1 million as part of the 2020/21 budget process. These were implemented on a recurring basis, contributing to the overall underspend achieved.

An underspend of £2.4 million was achieved

31. The 2020/21 revenue outturn is an underspend of £2.4 million (1.3% against revised £183 million budget). The main areas of underspend are:

- Additional staff turnover savings achieved across the council of £1.5 million
- Release of contingencies not required of £0.6 million
- Underspend of £0.3 million for Education utility costs
- Underspend within External Homecare of £0.6 million
- A reduction in costs within short breaks/respite and Learning Disability transport of £0.2 million.

32. The underspends above are offset by various overspends; mainly £0.5 million overspend within Health and Social Care Partnership (HSCP) client commitments across services and increased costs of £0.4 million within Children & Families for external placements.

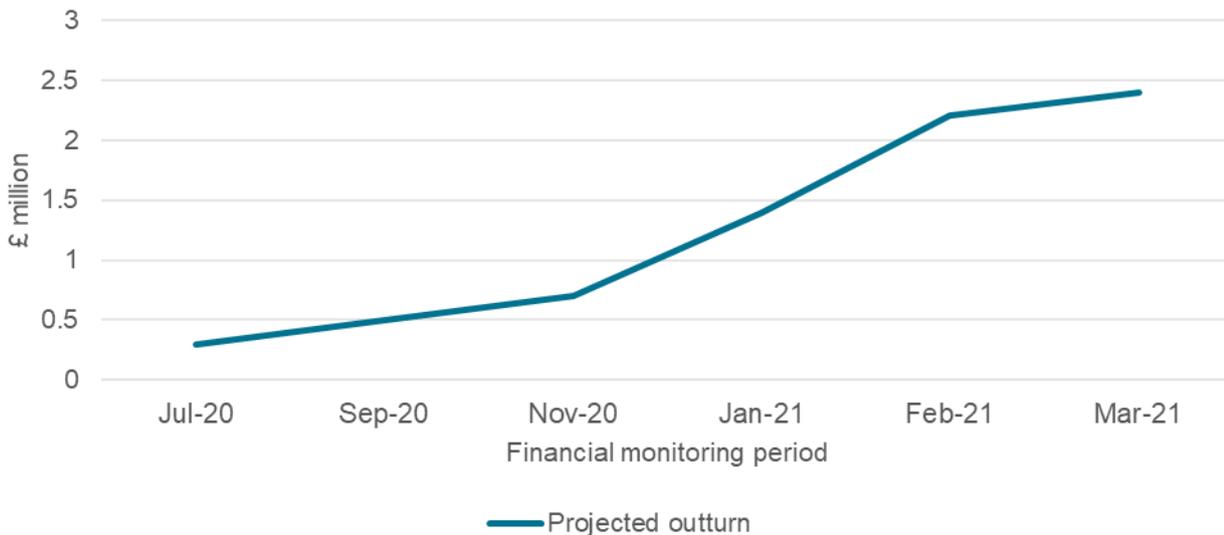
33. Many of the areas of underspend were non-recurrent/one-off in 2020/21, some of which were as a result of reduced services due to Covid-19.

34. All Covid costs has been fully funded by grant income or use of reserves resulting in a £nil impact on service outturns.

35. The development of the budget position through the year is shown in [Exhibit 3](#). This reflects the additional Covid-19 funding received towards the end of of 2020/21.

Exhibit 3

Outturn reporting of the projected year-end surplus position during 2020/21



Source: Inverclyde Council financial monitoring reports

Budget processes were appropriate

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

The Council did not use financial flexibilities in 2020/21

37. Financial flexibilities, agreed between the Scottish Government and CoSLA, were made available to local authorities to address the short-term funding pressures they faced due to Covid-19. The council elected not to use the financial flexibilities available in 2020/21 and will review for 2021/22.

The Council received £26 million additional funding for Covid-19 and paid out a further £20 million in grants to businesses and individuals

38. The impact on public finances of the Covid-19 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.

39. Council Tax collection remained high in 2020/21 at 94.4% against 95.4% achieved in 2019/20.

40. Businesses in Inverclyde benefited from £7.7 million in Covid-19 Retail, Hospitality, Leisure and Aviation relief, during 2020/21 for businesses in those sectors. However, the collection rate was 93.5%, a decrease of 2.9% from 2019/20.

41. As reflected in [Exhibit 3](#), the council received a significant level of Scottish Government funding to support services, employees and residents through the Covid-19 pandemic. A total of £25.9 million was received by the council (including through the general revenue grant), and a further £20.2 million under agency arrangements. £1.8 million of the £20.2 million remained at the year end and is carried forward as re-payable to the Scottish Government.

The General Fund reserve balance has increased by £6 million and remains high

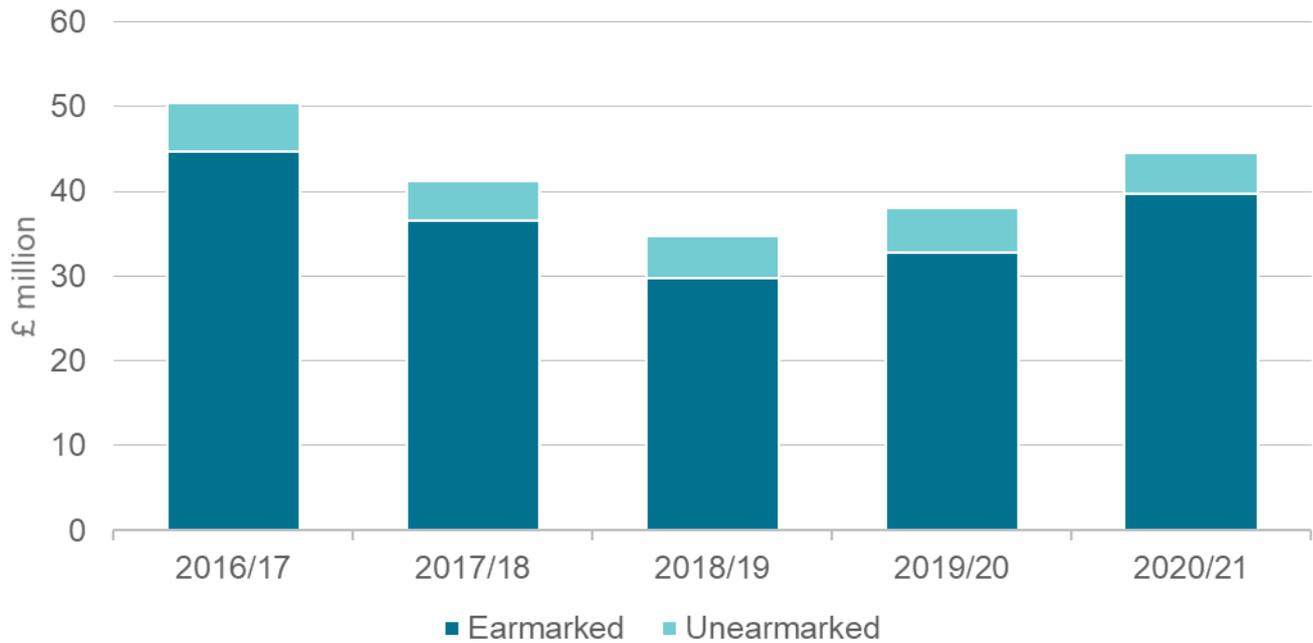
42. The general fund balance increased from £38 million at 31 March 2020 to £44 million at 31 March 2021. Earmarked reserves represent £39 million of this total, including a £5 million earmarked reserve to support future budget strategy. This leaves a balance of £5 million of unallocated reserves (2.41% of the council's budgeted net annual running costs).

43. Inverclyde Council continues to have significantly higher general fund balances compared to other councils, 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.

44. The ongoing financial pressures presented by Covid-19 have impacted on the reserves position for 2020/21 with £13.8 million added to earmarked reserves in relation to Covid-19.

45. [Exhibit 4](#) provides an analysis of the general fund reserves balance over the last five years split between earmarked and unearmarked reserves. This shows that the level of reserves has gradually risen again since 2018/19, but partly due to late and unspent Covid-19 funding received from the Scottish Government.

Exhibit 4 Analysis of general fund balance



Source: Inverclyde Council Audited Financial Statements

Capital expenditure reduced in 2020/21 as the council paused their capital investment projects

46. Construction work effectively ceased as a result of lockdown. Total capital expenditure in 2020/21 was £16.8 million, a £9 million reduction on the previous and earlier years.

47. The council identified that material shortages and price increases in the UK construction industry have had a significant impact on the existing capital programme and will continue to do so in the short to medium term. The issues include:

- Covid-19 has affected supply from mills and factories;
- Supply chain bottlenecks due to global demand shocks;
- Container shortages and port delays;
- Construction demand rose quite sharply in the second half of 2020 after initial lockdown;
- Increased administration at UK ports affecting imports and exports due to UK EU Trade and Cooperation Agreement;
- Sharp rises in shipping costs and temporary surcharges;
- Since the beginning of the year the UK Construction Purchasing Managers Index has shown shortages of over sixty different construction materials including bricks, timber, and roof tiles.

48. Where possible the use of alternative products is being investigated by contractors to mitigate delays. The council has agreed up to £1.6million of prudential borrowing funded by a recurring sum of up to £100,000 to alleviate the cost pressures highlighted.

Financial systems of internal control operated effectively but some weaknesses were identified

49. 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.

50. Our findings were included in our management report which was presented to the Audit Committee on 8 July 2021. We concluded that the key controls were operating satisfactorily. However, several control weaknesses were identified covering the timely completion of bank reconciliations, checking of payroll exception reports and operation of the payroll validation control.

51. In response to this, we increased our substantive testing of staff costs and concluded that there were no material errors in the financial statements. These identified weaknesses are being addressed by officers.

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

52. We have reviewed the arrangements in the council and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities and standards of conduct.

53. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. As reported in 2019/20, the council is pro-active in investigating matches and reporting the outcomes of NFI activity. To date, over 3,000 matches have been processed with over £20,000 of outcomes recorded so far, including one fraud.

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 Financial Strategy has incorporated the expected impact of Covid-19, but medium to long term savings plans have still to be fully developed

The council set a two year budget for 2021/22 and 2022/23 and has implemented an Organisational Recovery Plan for 2021-23.

The 2021/22 budget is based on achieving previously approved savings of £2.8 million and no increase in council tax

54. The financial impact of the pandemic on Inverclyde Council is likely to extend across several years and could include a reduction in income from business rates and council tax as well as a reduction in fees and charges from, for example, leisure, planning fees and parking.

55. On the 18 February 2021, the Council approved a Council Tax Freeze for 2021/22.

The council set a two-year budget

56. The 2021-2023 budget is a two-year revenue budget and was approved by the council in March 2021. Members had previously agreed the strategy of setting a Revenue Budget for 2021-2023 on the basis of no/minimum reductions to front line services and decisions to date have reflected that approach. Members also agreed that Reserves should be used to fund any remaining Budget gap for 2021/22 and up to £4 million of the 2022/23 Budget gap.

57. The 2021/22 budget was set at £203 million and includes the use of £1 million from general reserves. The budget also includes £2.8 million of previously approved savings.

58. The 2021-2023 budget includes an allocation of £15 million towards Covid costs; £11.5 million in 2021/22 and £3.4 million in 2022/23. This expenditure is matched by income consisting of; £7.9 million of Government Grants, £70,000 Other Funding and £7.8 million of unused reserves from 2020/21. An unallocated Contingency of £1 million will be used to meet any unbudgeted costs associated with Covid from 2021/22 onwards.

Medium and longer term financial plans are in place and have been updated to reflect the impact of the pandemic

59. We reported in our 2019/20 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 2021/22 to 2030/31. 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.

60. The updated financial strategy was presented to the Council in June 2021 taking full account of the estimated impact of Covid-19 on the council's finances. The strategy provides detailed financial forecasts over the medium-term period 2021/22 to 2023/24 and identifies issues that will impact in the longer-term so that the council can prepare plans. Through this process, officers identified a cumulative gap of £11.4 million over the period to 2024. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2021 to 2024 are £5.1 million and £21.6 million respectively.

61. The strategy includes an action plan for addressing short, medium and long-term issues. The council plans to bridge funding gaps mostly by savings and the transfer of reserves from the general fund. However, savings plans have still to be fully developed.

Recommendation 5

The council should further develop savings plans to bridge future funding gaps in the medium to long term

The Organisational Recovery Plan 2021-23 was approved in June 2021

62. The Organisational Recovery Plan highlights the achievements since the start of the pandemic and the council's objectives to recover. The action plan contains 8 high level outcomes in relation to:

- Workforce
- Property
- Technology
- Corporate Governance
- Business Continuity
- HSCP
- Education & Communities

- Environment & Regeneration.

63. Each outcome has a number of actions. Updates on progress will be provided to the Policy & Resources Committee from September onwards.

64. The service delivery achievements within the plan illustrate that the council has managed well in the circumstances. This includes

- The delivery of remote learning, including the recording of lessons for the West Online School
- 1200 laptops distributed to young people in secondary schools
- 7 days a week helpline implemented, where Inverclyde residents can access everything from food and medicine to health and wellbeing advice
- Administration and distribution of the many grants to businesses and eligible people.

65. The action plan also shows the commitment to improvement in key areas. It includes responsible officers, timescales, resources required, links to other plans, and success measures. A risk register is also included in the plan, setting out risks and mitigations.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

The governance arrangements introduced in response to the pandemic are appropriate and operated effectively

Management changes have been significant

Overall governance arrangements are appropriate but have been impacted by the Covid-19 pandemic

66. As part of our audit process we continually assess the governance arrangements within Inverclyde Council. The impact of Covid-19 on these arrangements has been set out in the Annual Governance Statement in the body's annual report and accounts. These were significant and allowed the body to manage the unprecedented nature and scale of the threat to its communities and staff.

67. The Council agreed in February 2021 that the next cycles of Committee and Board meetings continue on the basis of priority business only until there is a significant reduction in the local protection levels.

68. At the same meeting the Council agreed to update the Schemes of Delegation and Administration to reflect the interim management structure in the period 1 March 2021 to March 2022.

69. Currently, the council is operating hybrid meetings for Council and committees. This has been the case since August with all meetings recorded. However, these recordings were not initially placed on the website for access by the public on the basis that the public could physically attend the meetings if they wish. From the 23 September meeting of the Council, this has recommenced.

Management changes have been significant

70. In April 2021, the council's chief executive announced his retirement from the local authority, allowing time for a new chief executive to be recruited. The successor took over in late September. This presents a challenge to the council with change in key management in an uncertain environment.

71. In addition to this, the Corporate Director (Environment, Regeneration and Resources) and the Head of Legal and Property Services retired in February 2021. This represents a significant loss of experience at Corporate Management Team level.

Review of the integration scheme continues to be delayed

72. 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.

73. 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 by July 2022. This matter has been set out in the Governance Statement in the Council's annual accounts.

The social care finance function was transferred from the Council to IJB

74. In February 2019, the Ministerial Strategic Group for health and community care published 'a review of progress with the integration of health and social care'. The report made 25 recommendations including the following:

- Statutory partners must ensure appropriate support is provided to IJB S95 Officers. This will include Health Boards and Local Authorities providing staff and resources to provide such support. Measures must be in place to ensure conflicts of interest for IJB S95 Officers are avoided – their role is to provide high quality financial support to the IJB.
- It is recommended that the Health Board and Local Authority Directors of Finance and the Integration Joint Board financial officer establish a process of regular in-year reporting and forecasting to provide the Chief Officer with management accounts for both arms of the operational budget and for the Integration Joint Board as a whole. It is also recommended that each partnership area moves to a model where both the strategic and operational finance functions are undertaken by the IJB S95 officer and that these functions are sufficiently resourced to provide effective financial support to the Chief Officer and the IJB.

75. Inverclyde has opted to transfer the council social care finance staff to the IJB so that the line management and day to day operational activity fall within the remit of the IJB chief finance officer.

The council continues to develop shared services

76. An Interim Management Model has been implemented with West Dunbartonshire Council for Environmental and Roads Services.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The council has an appropriate and effective best value framework in place

City Deal projects have suffered further delays

Revision of the Local Development Plan is on track

The council is making progress in securing Best Value

77. 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 will be considered by the Accounts Commission at least once in this period. The [BVAR report](#) for 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.

78. 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.

79. In our Annual Audit Report 2019/20, we identified that six of the ten recommendations had been completed with the remaining four still ongoing. The latest Corporate Policy and Performance Update Report submitted to the September 2021 Policy and Resources Committee, notes progress made in relation to the four remaining actions (Community Empowerment, Measuring Impact and Outcomes, City Deal and Shared Services).

Exhibit 6

Progress against BVAR recommendations

BVAR Recommendation	Council assessment	Summary of progress
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	Green – on track	A model for the implementation of locality planning in Inverclyde is in place, consisting of a Locality Planning Group (LPG) and a Communications and Engagement Group (CEG) in each of Inverclyde's six localities. LPGs are

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.

forums for public services and communities to come together to design and deliver a plan for their locality. CEGs are a forum for the community to plan for the needs and aspirations of their local community and to lead community involvement and engagement activity that will be fed into the LPG.

Reasonable progress has been made but has been delayed due to Covid-19.

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.

Green – on track

This work continues to be ongoing. A report providing an update on a number of developments relating to Best Value, and incorporating more detailed information on the measurement and reporting of outcomes was presented to the September 2021 meeting of the Policy and Resources Committee. The report notes that as part of its overall approach to delivering continuous improvement, the Council will continue 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.

Reasonable progress made – work is ongoing

8. Appointment of a lead change officer and the production of a detailed Business Plan for shared services

Green – on track

Inverclyde and West Dunbartonshire Councils now 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.

From 1 January 2020 West Dunbartonshire and Inverclyde Councils have shared a Chief Auditor. Business planning in potential management changes to complement this arrangement are being undertaken for consideration by both councils.

A strategy has been presented to the Joint Committee in terms of collaboration achievements and improved resilience to date. Further opportunities for collaboration are being explored.

Good progress made as evidenced. Service improvement initiatives are continuing.

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

Progress on each of the City Deal projects is detailed below at paragraphs 80 to 90.

City Deal projects have been delayed

Source: Inverclyde Council

City Deal projects have been delayed

80. We reported in our 2019/20 Annual Audit Report that City Deal projects had suffered delays and this has continued in 2020/21.

Greenock Ocean Terminal

81. The marine works are now complete and receiving ships with 45 expected this year and 120 next year - this is ahead of target against the City Deal Plan.

82. The contract for the terminal building commenced on 18 May and is expected to be completed in May 2022. Leases with the George Wylie Foundation and Peel Ports have now been signed for the project.

83. The anticipated timescale for completion of the marine works was initially March 2020, with the terminal building anticipated to be completed by August 2020. The total budget for the project is £19.4 million and includes contributions from Clydeport Operation Ltd of £8m towards the floating pontoon.

84. The project suffered significant delay due to the disruption of replacing the main contractor through a retendering exercise.

Inchgreen

85. The Inchgreen Outline Business Case has now been approved by the City Deal Cabinet. The cost of the project is estimated at £9.4 million.

86. The main elements of the project involve land purchases, clearing of the site, upgrading the quay, improving the infrastructure that serves the site and constructing a ship fabrication shed. It is a Joint Venture with Peel Ports Ltd.

87. The council is currently working with Peel Ports Ltd on the Final Business Case which is expected to be approved in December 2021, with works commenced in late 2021/22. It is estimated that £2.4 million of spend should be achieved in 2021/22 with the balance over 2022/23 and 2023/24.

Inverkip

88. This project is still proving challenging. It is a split project reliant on Scottish Power confirming they are progressing their Master Plan. Negotiations are underway with the council progressing Main Street/A78 improvements.

89. The budget has been rephased with £0.1 million estimated to be spent in 2021/22, a further £2.5 million in 2022/23 and the balance in 2023/24.

90. The council and Scottish Power plan to jointly commission the design works with the contract split not yet finalised. The project start date is not yet known.

Revision of the Local Development Plan is on track

91. 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.

92. The draft LDP was submitted for consultation in August 2021 and responses are now being considered before submission to Scottish Ministers. This is in line with the agreed timescale, with adoption not likely to be before April 2022.

Performance management arrangements provide a sound base for improvement

93. 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.

94. Following a review of the reporting process, the council has combined the Corporate Plan Annual Report and the SPI Annual Report into a single Annual Performance Report. The 2020/21 report includes performance against the council's ten organisational priorities and a performance dashboard.

95. 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. Outcomes are mapped to both Corporate Plan indicators (CPs) and Key Performance Indicators (KPIs) 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.

96. Of the 23 CPs that showed a RAG status, 10 were red (43%), 4 were amber (17%), and 9 were green (40%).

97. Of the 29 KPIs that showed a RAG status, 8 were red (27%), 6 were amber (21%) and 15 were green (52%).

98. Data availability in 2020/21 is affecting comparisons to previous years' data.

Statutory performance indicator (SPI) requirements are being met

99. 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.

100. We have evaluated the council's arrangements. They have demonstrated well-established processes and planning, with detailed instructions issued for those preparing the indicators. Processes have been updated and refined to ensure performance reporting remains robust throughout the current Covid restrictions. This is confirmed in a report to the Policy and Resources Committee on 14 September 2021.

101. 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.

Inverclyde Council continues to perform well when compared against other councils despite the pandemic

102. The council participates in the [Local Government Benchmarking Framework \(LGBF\)](#). The most recent [National Benchmarking Overview Report 2019/20](#) by the Improvement Service was published in January 2021, with a further 7 children's services indicators issued later in the year, and covered the 2019/20 reporting period. The Council has 54 indicators out of 80 (68%) in the top two quartiles which is the highest across all Scottish councils.

103. Inverclyde were ranked 1st in Scotland for percentage of funded early years provision which is graded good or better at 96%; and 2nd top performing authority in relation to delayed discharges and percentage of unemployed people assisted into work from council operated/funded employability programmes. However, the council is ranked last in relation to town centre vacancy rates.

104. Audit Scotland published "[The impact of Covid-19 on Scottish councils' benefit services \(a thematic study\)](#)" in October 2021. This highlights that most of Scotland's councils, including Inverclyde, have maintained or improved their delivery of vital benefits during the Covid-19 pandemic, despite short-staffing and major disruptions from having to abruptly move to home or remote working.

Locality Action Plans have been developed but progress was impacted by Covid-19

105. Locality planning is being adopted by Inverclyde Alliance, the area's Community Planning Partnership and Inverclyde Health and Social Care Partnership. It aims to empower communities by strengthening their voices in decisions about public services.

106. At the beginning of 2020 the Alliance set up Communication and Engagement Groups in each of the six localities and held a number of face-to-face meetings and events. Due to the pandemic they were unable to continue with face-to-face meetings and instead developed alternative ways of communicating and engaging with communities during 2020/21 such as Facebook, online meetings and listening events.

107. A Locality Action Plan has been developed for each of the six localities.

Locality Planning Groups aim to develop further in 2020/21

108. The Alliance plans to work with the Communication and Engagement Groups to increase membership and support the community members of the groups. It intends to provide training and support on digital engagement and to work with the groups to take action to tackle the issues that they want to prioritise. The LOIP Annual Report 2020/21 states that they will:

- Use what was learned from the Pilot Local Planning Group meeting held in Port Glasgow to inform the rollout of Locality Planning Groups across the remaining five localities
- Review all Locality Action Plans to ensure that they contain the right priorities for each locality and involve communities in this process
- Seek the views of the community about their experience of Covid-19 and the actions required to support recovery and use this to inform the development of recovery plans
- Work towards implementing participatory budgeting by March 2022. This will enable local people to have a say in how defined budgets can be used to address local priorities.

National performance audit reports

109. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

110. The Council has processes in place to ensure that findings from national and other relevant Audit Scotland reports are reported to members. These are provided alongside an assessment of potential improvement actions by Inverclyde Council to support further improvements.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Detailed review of fixed asset register</p> <p>The fixed asset register did not correctly reflect the net book values and movements of all assets at the year end. There were also several assets created in the register that were redundant and required adjustment or disposal. The single entity register also incorrectly included common good assets.</p> <p>Risk – the accounts do not correctly reflect the significant values of assets and movements in the year.</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>Exhibit 2 (issue 1)</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>June 2022</p>
<p>2. Non-current asset valuations</p> <p>The council operates a five-year rolling programme of revaluations where land and buildings and most other assets are valued in a single exercise at five-yearly intervals. No indexation applied is in the intervening years leading to significant movements in value every five years.</p> <p>Risk – significant asset classes are not reflected accurately in the accounts each year.</p>	<p>The council should complete a management review of its fixed asset register at each year end and reconsider its approach to five-year programme of revaluation.</p> <p>Exhibit 2 (issue 5)</p>	<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>June 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Management commentary</p> <p>As reported in prior years, full compliance with the recommendations in the Local Government Overview (para 59 in 2019/20 report) has not been demonstrated in relation to performance against budget.</p> <p>Risk – users of the accounts do not clearly understand the development of the budget throughout the year and how this is represented in the financial statements.</p>	<p>The council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission’s Local Government Overview</p> <p>Exhibit 2 (issue 6)</p>	<p>The previously agreed action will be implemented from the 2021/22 Accounts</p> <p>Interim Director, Finance & Corporate Governance</p> <p>June 2022</p>
<p>4. Estimation and judgement disclosure</p> <p>The current disclosures in note 37 do not include carrying amounts, the sensitivity of carrying amounts to the assumptions (including the reasons of sensitivity), the expected resolution of the uncertainty and the range of reasonably possible outcomes within the next financial year, or an explanation of the changes made to past assumptions.</p> <p>Risk – users of the accounts do not clearly understand the risk involved in the key estimations and judgements made.</p>	<p>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> <p>Exhibit 2 (issue 8)</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>June 2022</p>
<p>5. Medium to long term savings</p> <p>The council’s Financial Strategy includes an action plan for addressing short, medium and long-term issues. However, it shows budget gaps in 22/23 and</p>	<p>The council should further develop savings plans to bridge future funding gaps in the medium to long term.</p> <p>Paragraph 61</p>	<p>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.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>23/24 which have yet to be addressed with savings plans still to be fully developed.</p> <p>Risk – the council are unable to identify savings and set a balanced budget in years to come.</p>		<p>Interim Director, Finance & Corporate Governance</p> <p>February, 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>6. Management Commentary</p> <p>Although a number of improvements have been made for 2019/20, full compliance with the recommendations in the Local Government Overview (para 59 in 2019/20 report) has not been demonstrated in relation to performance against budget.</p> <p>Risk – Users of the accounts do not clearly understand the development of the budget throughout the year and how this is represented in the financial statements.</p>	<p>The council should adopt best practice for the narrative contained within the management commentary outlined in the Accounts Commission's Local Government Overview.</p>	<p>Outstanding</p> <p>Although a number of improvements have been made for 2020/21, full compliance with the recommendations in the Local Government Overview (para 59 in 2019/20 report) has not been demonstrated in relation to performance against budget.</p> <p>See Recommendation 3 above</p>
<p>7. Internal Controls</p> <p>Our work on internal controls identified weaknesses in controls within the payroll system in particular. This is a concern given the extent of expenditure incurred on staff costs.</p> <p>Risk – There is a risk that payroll information is inaccurate and not identified by service departments</p>	<p>The council should ensure that robust controls are in place to address the weaknesses reported in May 2020 and ensure a robust control environment.</p>	<p>In progress</p> <p>Interim testing for 20/21 identified systems weaknesses which required us to reconsider our audit procedures. Reconciliation issues arose due to access restrictions in relation to Covid-19 and a key member of staff leaving, leading to reduction in the operation of financial controls during the year. We assessed that these</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>resulting in incorrect payments.</p>		<p>weaknesses did not represent additional risks of material misstatement, but we identified a need to undertake additional audit work during our financial statements audit.</p> <p>See recommendations in 2020/21 management report..</p>
<p>8. Local Development Plan</p> <p>A successful legal challenge to the council's housing policy has resulted in an incomplete LDP currently being in place.</p> <p>Risk - Resources will be used on legal advice for any planning applications for residential development which have housing land supply issues.</p>	<p>The council should develop and revise the relevant section of the LDP as soon as practicable.</p>	<p>In progress</p> <p>The draft LDP was submitted for consultation In August 2021 and responses are now being considered before submission to Scottish Ministers for consideration. This is in line with the agreed timescale with adoption not likely to be before April 2022.</p>

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Used data analytics to carry out detailed testing of journal entries.</p> <p>Reviewed and assessed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Identified and evaluated significant transactions that are outside the normal course of business.</p>	<p>Results:</p> <p>We undertook extended testing of high-risk journals using data analytics to target income and expenditure transactions. Satisfactory explanations and supporting evidence were provided for all transactions reviewed.</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>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement caused by error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets and pension assets/liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic. The council has a rolling programme of valuations with 2020/21 being a valuation year for land and buildings.</p> <p>Given categories of assets have not been subject to valuation since the impact of Covid-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts.</p>	<p>Assessed the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</p> <p>Reviewed appropriateness of actuarial assumptions and results including comparison with other councils.</p> <p>Walked through the process of valuation to understand the basis for significant judgements.</p> <p>Established officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Established officers' arrangements for getting assurances over the impact of Covid-19 on the accuracy of non-current assets not subject to valuation in year.</p> <p>Reviewed actual experience of significant estimates made in the prior year.</p>	<p>Results:</p> <p>Our review of experts engaged to provide valuations for non-current assets and pensions found them to be independent and competent. We evaluated actuarial assumptions and investigated movements out with tolerable range. We obtained further assurance from the actuary over the pension liability.</p> <p>We identified significant issues with the fixed asset records as a result of the full valuation exercise and have made recommendations to improve controls and more frequent revisions to valuations.</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 2020/21.</p> <p>Conclusion:</p> <p>We identified significant issues with the fixed asset register which led to material adjustments in the audited accounts.</p>
<p>3. Risks relating to Covid-19</p> <p>Covid-19 has had a significant impact on the council in the 2020/21 audit year:</p> <ul style="list-style-type: none"> • Financial management - additional funding and 	<p>Established the additional funding streams the council has received in year; what it has been spent on; the impact on outturn and reserves; and how this is reported in financial statements.</p>	<p>Results:</p> <p>A total of £25.9 million was received by the council to support services, employee's and residents through the Covid-19 pandemic (including through the general revenue grant), and a further £20.2</p>

Audit risk	Assurance procedure	Results and conclusions
<p>expenditure. CoSLA analysis indicates that council income has increased by 9 per cent and over £1.3bn of additional support to business has been routed through Councils as a result of COVID-19.</p> <ul style="list-style-type: none"> • Financial reporting – The council is projecting a surplus on outturn of £1.4 million but reports a balanced position in relation to COVID-19 income and expenditure. COVID-19 may have affected bad debt experience and the position of organisations in the wider group. • Financial management - The Scottish Government has allowed for flexibility to be applied to certain areas of council funding and accounting practices. • Financial reporting - The Council require to make judgement on the correct accounting treatment in relation to additional funding arrangements – whether the council is acting as agent or principle. • Fraud and controls - There is an increased risk of fraud for some COVID-19 related grants. Due to the nature of the schemes, there may not have been adequate consideration of internal control frameworks and the impact of remote working. • Group - COVID-19 raised issues over going concern for some of the council's group bodies in 2019/20. Given the economic impact which has been felt during 2020/21, there is an increased risk to the going concern principle 	<p>Reviewed any Scottish Government and CIPFA/LASAAC guidance on accounting.</p> <p>Discussed with management during the year to consider the accounting treatment of significant business grants and use of financial flexibilities.</p> <p>Reviewed disclosures and balances in annual accounts to ensure that this is consistent with any guidance issued.</p> <p>For the most significant grants (by value), established the conditions attached and the associated controls implemented over these.</p> <p>Confirmed existence and operation of these controls by completing a walkthrough.</p> <p>Reviewed potential NFI data matches.</p> <p>Established the impact on collection rates and assessed the impact on the bad debt provision.</p> <p>Considered the impact of COVID-19 in the wider group including furlough and any issues raised by component auditors.</p> <p>Considered the impact of any increased funding by the council on classification of group components.</p> <p>Early engagement with appropriate component auditors.</p> <p>Assessed any national reporting of business grant performance and discussed any issues with officers.</p>	<p>million under agency arrangements.</p> <p>The ongoing financial pressures presented by Covid-19 have impacted on the reserves position for 2020/21 with £13.8 million added to earmarked reserves in relation to Covid.</p> <p>Grant payments from the Council for Covid Grants have been assessed against conditions being met from the recipient and confirmed as appropriate.</p> <p>The accounting treatment of Covid funding streams was assessed against LASAAC guidance and issues identified were corrected in the audited statements.</p> <p>Our 20/21 testing covered key areas for preventing and detecting fraud including the awarding of discretionary discounts and grant payments in relation to council tax, NDR and Covid-19.</p> <p>As a result of increased Covid funding for the Leisure Trust we reviewed continued classification as an associate. The review identified that the Trust meets the definition of a structured entity. In recognition of this, the Leisure Trust's classification has been amended and is now included in the Group Financial Statements as a 100% subsidiary.</p>

Audit risk	Assurance procedure	Results and conclusions
for some of the group components.		

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability</p> <p>The council has revised its Financial Strategy to incorporate the impact of COVID-19 known at that time. This forecasts a budget gap of £17 million for the three-year period to 2023/24. The Financial Strategy highlights that significant savings will need to be achieved to address funding gaps.</p> <p>It is likely that there will be further cost pressures to the council on top of the immediate response to the COVID-19 crisis. There is a risk to the long-term financial sustainability of the council given the additional cost pressures.</p>	<p>Reviewed the development of the two-year budget strategy.</p> <p>Considered the 2021/22 revenue budget and required savings target.</p> <p>Reviewed the financial monitoring during the year, including the use of reserves and delivery of planned savings.</p>	<p>Results:</p> <p>The 2021/23 two-year revenue budget was approved by the council in March 2021.</p> <p>The 2021/22 budget was set at £203.1 million and includes the use of £1.0 million from general reserves. The budget also includes £2.8 million of previously approved savings. Members also agreed that Reserves should be used to fund up to £4 million of the 2022/23 Budget gap.</p> <p>The current financial strategy includes an action plan for addressing short, medium and long-term issues. The council plans to bridge funding gaps mostly by savings and the transfer of reserves from the general fund. However, savings plans have still to be fully developed.</p> <p>Conclusion: Medium to long term savings plans have still to be fully developed.</p> <p>See recommendation 5 above.</p>

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Inverclyde Council

2020/21 Annual Audit Report

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