

**A meeting of the Audit Committee will be held on Thursday 29 June 2023 at 3pm.**

**Members may attend the meeting in person or via remote online access. Webex joining details have been sent to Members and officers. Members are requested to notify Committee Services by 12 noon on Wednesday 28 June 2023 how they intend to access the meeting.**

**In the event of connectivity issues, Members are asked to use the *join by phone* number in the Webex invitation and as noted above.**

**Please note that this meeting will be live-streamed via YouTube with the exception of any business which is treated as exempt in terms of the Local Government (Scotland) Act 1973 as amended.**

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IAIN STRACHAN  
Head of Legal, Democratic, Digital & Customer Services

## **BUSINESS**

**\*\*Copy to follow**

<b>1.</b>	<b>Apologies, Substitutions and Declarations of Interest</b>	<b>Page</b>
<b>NEW BUSINESS</b>		
<b>2.</b>	<b>Internal Audit Annual Report and Assurance Statement 2022-2023</b> Report by Head of Legal, Democratic, Digital & Customer Services	<b>p</b>
<b>3.</b>	<b>Annual Report on the Audit Committee 2022-2023</b> Report by Head of Legal, Democratic, Digital & Customer Services	<b>p</b>
<b>4.</b>	<b>Review of Local Code of Governance and Interim Annual Governance Statement 2022-2023</b> Report by Head of Legal, Democratic, Digital & Customer Services	<b>p</b>
<b>5.</b>	<b>External Audit Plan for the Year Ended 31 March 2023</b> Report by Head of Legal, Democratic, Digital & Customer Services	<b>p</b>

## **PERFORMANCE MANAGEMENT**

6. **	<b>Unaudited Annual Accounts for the Year Ended 31 March 2023</b> Report by Chief Financial Officer	p
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The reports are available publicly on the Council's website and the minute of the meeting will be submitted to the next standing meeting of the Inverclyde Council. The agenda for the meeting of the Inverclyde Council will be available publicly on the Council's website.

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Enquiries to – Lindsay Carrick – Tel 01475 712114

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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date: 29 June 2023</b>
<b>Report By:</b>	<b>Head of Legal, Democratic, Digital &amp; Customer Services</b>	<b>Report No: AC/15/23/IS/APr</b>
<b>Contact Officer:</b>	<b>Andi Priestman</b>	<b>Contact No: 01475 712251</b>
<b>Subject:</b>	<b>INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2022-2023</b>	

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**1.0 PURPOSE**

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2022/2023, which forms part of the Council's Annual Governance Statement.

**2.0 RECOMMENDATIONS**

2.1 It is recommended that the Audit Committee review and consider the Internal Audit Annual Report and Assurance Statement.

**Iain Strachan**  
**Head of Legal, Democratic, Digital & Customer Services**

### 3.0 BACKGROUND AND CONTEXT

3.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Annual Governance Statement. This report should present an opinion as to the overall adequacy and effectiveness of the organisation's internal control environment.

3.2 The report should also:

- Disclose any qualifications to that opinion, together with reasons for the qualification;
- Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
- Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
- Compare the work undertaken with work planned.

3.3 The Accounting Code of Practice ("ACOP") requires that the Section 95 Officer produces a signed Annual Governance Statement as part of the Council's Annual Accounts. This report is subject to External Audit scrutiny as part of the year-end audit process.

### 4.0 PROPOSALS

4.1 The Internal Audit Annual Report and Assurance Statement for 2022/2023 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Satisfactory**.

4.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2022-2023, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

4.3 Members are asked to review and consider the Internal Audit Annual Report and Assurance Statement for 2022-2023.

### 5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk	X		
Human Resources		X	
Strategic (LOIP/Corporate Plan)	X		
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

#### 5.2 Legal/Risk

There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide a minimum level of assurance over the Council's system of internal financial control to those charged with governance.

#### 5.3 Human Resources

There are no human resources implications directly arising from this report.

#### **5.4 Strategic**

This report helps ensure strong governance, and its findings will help support delivery of the Council Plan adopted by Inverclyde Council on 20 April 2023, and in particular outcome theme 3: Performance, with the Council seeking to provide high quality and innovative services that deliver value for money.

#### **6.0 CONSULTATIONS**

6.1 Not applicable. This report summarises the work carried out during 2022-2023 which have been included in separate progress reports to Audit Committee.

#### **7.0 LIST OF BACKGROUND PAPERS**

7.1 Internal Audit Annual Strategy and Plan 2022-2023. Internal Audit Progress Reports to Audit Committee in June and October 2022, and January, February and April 2023.



**Internal Audit Annual Report and Assurance Statement 2022-2023**

**30 May 2023**

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## SECTION 1 – INTRODUCTION

### **Purpose of this report**

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the organisation to inform the Annual Governance Statement. This report constitutes the required statement. As required by PSIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Council's risk management, control and governance processes based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of Inverclyde Council are explained further in Section 4 of this report.

### **Main objectives of Inverclyde Council's Internal Audit Team**

- 1.2 The purpose of Inverclyde Council's Internal Audit activity is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The Internal Audit activity helps Inverclyde Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

### **Scope of Inverclyde Council's Internal Audit Team**

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

### **Acknowledgements**

- 1.4 The assistance provided by Council staff in the course of the work undertaken by Internal Audit during 2022-2023 is gratefully acknowledged.



**SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE**

**Scope**

- 2.1 The work undertaken by Internal Audit in 2022-2023 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken is summarised in paragraphs 2.3 to 2.4 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section 4).

**Overall assessment**

- 2.3 On the basis of Internal Audit work carried out in 2022-2023, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls. The overall opinion is **Satisfactory**.

COVID-19

The significant incident in late March 2020 and the Council's management as a Category 1 responder during the COVID-19 pandemic has continued to test how well the risk management, governance and internal controls framework operated. The longevity of the Covid-19 pandemic and its extension from 2020/21 into 2021/22 meant that the effect on the Council's businesses, residents and workforce remained an area of concern in 2022/23.

The Council's response to the pandemic and the mobilisation of its staff continued to show the benefits of an agile and proactive workforce using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings and secure remote access to systems to allow remote/home working for a significant number of employees within the Council.

The Covid-19 pandemic and its aftermath is likely to have a lasting impact on income levels, resulting from fundamental changes in social movements, behaviours and preferences.

**Other matters**

- 2.4 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2022-2023 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of internal control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.5 A monthly follow up process is in place and continues to operate effectively. All actions arising from internal and external audit reviews are subject to follow up and validation by the CMT and the Chief Internal Auditor on a regular basis, with reporting on progress to the Audit Committee.

**SECTION 3 – INTERNAL AUDIT WORK CONDUCTED**

**Internal audit approach**

3.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit annual audit plan.

**Progress on the 2022-2023 internal audit plan**

3.2 The Annual Internal Audit Operational Plan 2022-2023 was discussed and agreed with the Audit Committee on 22 February 2022.

3.3 Progress against planned audit work for the year to 31 March 2023 can be summarised as follows:

<b>Planned audit coverage</b>	<b>Status</b>
<b>Risk Based Reviews</b>	
Residential Care – Children’s Services (b/f)	Completed
Workforce Planning Arrangements	Completed
Supplier Management	Deferred to 2023-2024 Audit Plan
Cyber Security Arrangements	Completed
Freedom of Information Arrangements	Completed
Climate Change – Utilities Management	Completed
<b>Limited Scope Finance Reviews</b>	
Debt Recovery	Completed
<b>Project Assurance Reviews</b>	
Learning Disability Hub (b/f from 2021-22)	Completed
Swift Replacement System (Social Work IT System)	Ongoing – included on 2023-2024 Audit Plan
<b>Regularity Audit Work</b>	
Education Control Self-Assessment	Completed
Discretionary Payments	Completed
Client Accounts – Quarterly Checks	Fieldwork
Catering – Quarterly Stock Checks	Fieldwork
Education Establishment Placing Requests	Completed
Corporate Purchase Cards	Fieldwork
<b>Other Work</b>	
National Fraud Initiative	Matches have been received during January to March 2023 for the 2022-23 exercise. Investigations are underway.
IJB Audit Plan 2022-23	Audit plan for the Inverclyde IJB including 2 reviews was completed and reported to IJB Audit Committee
B/f 2021-22 Audit Plan Reviews	Fieldwork was completed and final reports issued for Self-Directed Support; Public Protection - Covid-19 Response; and Employee Expenses.

**SECTION 3 – INTERNAL AUDIT WORK CONDUCTED (CONTINUED)**

**Progress on the 2022/2023 internal audit plan (Continued)**

3.4 The total number of issues raised in the risk-based audits is set out in the following table:

Report	Red	Amber	Green	Overall Grading	Previous Grading
<b>2021/22 Audit Plan</b>					
Self-Directed Support	0	0	3	Satisfactory	N/A
Public Protection – Covid-19 Response	0	0	2	Strong	N/A
Employee Expenses	0	2	3	Satisfactory	Satisfactory
<b>2022/23 Audit Plan</b>					
Residential Care – Children's Services (b/f)	0	2	6	Satisfactory	N/A
Workforce Planning Arrangements	0	0	1	Strong	Satisfactory
Cyber Security Arrangements	0	2	2	Satisfactory	N/A
Freedom of Information Arrangements	0	0	6	Satisfactory	Satisfactory
Climate Change – Utilities Management	0	3	2	Satisfactory	N/A
Debt Recovery	0	0	1	Strong	Strong
Education Control Self-Assessment	0	3	1	Satisfactory	N/A
<b>Total</b>	<b>0</b>	<b>12</b>	<b>27</b>		

**Progress on Implementation of Action Plans**

3.5 A number of action plans were agreed in relation to the risk-based audit reports generated for the 2022-2023 annual audit plan. The following table sets out the total number of actions agreed for each report issued and the status of completion at 31 March 2023 as follows:

Report	No of Actions Agreed	No of Actions Complete at 31/3/23	No of Actions Revised at 31/3/23	No of Actions Not Due at 31/3/23
<b>2021/22 Audit Plan</b>				
Self-Directed Support	5	3	1	1
Public Protection – Covid-19 Response	2	2	0	0
Employee Expenses	8	6	1	1

Report	No of Actions Agreed	No of Actions Complete at 31/3/23	No of Actions Revised at 31/3/23	No of Actions Not Due at 31/3/23
<b>2022/23 Audit Plan</b>				
Residential Care – Children’s Services (b/f)	9	9	0	0
Workforce Planning Arrangements	2	1	1	0
Cyber Security Arrangements	9	4	0	5
Freedom of Information Arrangements	6	1	0	5
Climate Change – Utilities Management	10	3	0	7
Debt Recovery	3	0	0	3
Education Control Self-Assessment	10	0	0	10
<b>Total</b>	<b>64</b>	<b>29</b>	<b>3</b>	<b>32</b>

3.6 It is encouraging to note that of the 64 agreed actions subject to follow-up procedures, 29 out of 32 actions (91%) which were due for completion by 31 March 2023 have now been fully implemented. All actions are subject to ongoing follow up by Internal Audit and are included within the Internal Audit action plan follow up reports to the Corporate Management Team and the Audit Committee on a regular basis.

**Corporate Fraud Activity**

3.7 The undernoted table sets out corporate fraud activity in the period 1 April 2022 to 31 March 2023:

<b>Investigations 1/4/2022 to 31/3/2023</b>	
National Fraud Initiative	20 matches were investigated in the period.
Whistleblowing/Service/Other Referrals	108 other enquiries were investigated in the period.
<b>SPOC Referrals 1/4/2022 to 31/3/2023</b>	
DWP	There were 3 referrals in the period.
LAIEF	There were 37 referrals in the period.
<b>Other Work</b>	
Matches for the National Fraud Initiative for the 2022 exercise were received in January to March 2023. Work is ongoing to investigate these matches with regular reporting on progress to Audit Committee.	
Work was also undertaken in relation to Education Establishment Placing requests. There were no significant issues identified although some further work was required in some cases to establish the validity of the request. In addition, there was a continued focus on client money accounts, corporate purchase cards and catering stock checks. Work is ongoing to finalise these reviews.	
<b>Financial Results</b>	
For 2022/23, the corporate fraud team identified non-NFI overpayments of council tax discounts and exemptions of £59,070.	

**Ad hoc assignments**

3.8 Internal Audit undertook the following ad hoc assignments during 2022-2023:

<b>Ad hoc assignment</b>	<b>Status</b>
Co-ordination of Annual Governance Statement and supporting self-assessment processes for 2022-2023.	Completed
Providing input to FOI requests as appropriate.	Completed
Regular attendance at CRMT to provide relevant updates in relation to fraud risk alerts received and risk control advice as required.	Completed

**Performance Measures**

3.9 The following performance measures were in place for 2022/2023:

<b>Measure</b>	<b>Description</b>	<b>Target</b>	<b>Actual</b>
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%	78%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%	33% (1)
3. Audit Plan Delivery	Percentage of audits completed v planned.	85%	90%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%	45% (2)
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%	100%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%	100%
8. Staff compliance with CPD	Number of training hours undertaken to support CPD.	140	140
9. Management engagement	Number of meetings with CMT and DMTs as appropriate.	4 per quarter	6

(1) Delays were encountered in the overall reporting stages of some audits due to officer availability within some services to respond to points arising.

(2) Some audits incurred additional time to finalise reports with management as well as inefficiencies identified in the planning stage of some audits.

**Reliance by external audit**

3.10 During the year under review, liaison has taken place with the Council's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External Audit have indicated that they will consider the findings of the work of internal audit as part of their planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

## **SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE**

### **Approach**

- 4.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Internal Audit Standards and the agreed annual audit plans. The overall scope of the internal audit work encompasses Inverclyde Council's risk management practices, governance and internal control procedures.
- 4.2 The Annual Audit Plan is based on a formal risk assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Internal Audit Annual Strategy and Plan for 2022-2023 was discussed and agreed at the Audit Committee on 22 February 2022. In addition, consultation on the content and coverage of the audit plan took place with members of the Corporate Management Team.

### **Responsibility and reporting lines of the Chief Internal Auditor**

- 4.3 The Chief Internal Auditor reports functionally to the Council's Monitoring Officer and has a right of access and freedom to report in her own name to all officers and members and particularly those charged with governance. The adoption of these arrangements enables the Council to conform with the reporting line requirements of the International Standard on Auditing ("ISA") (UK and Ireland) 610 and the Public Sector Internal Audit Standards which were adopted by Local Government in the United Kingdom on 1 April 2013.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the Council's s95 Officer to provide assurances which informs the preparation of the Annual Governance Statement for inclusion in the Council's Annual Accounts.

### **The work of Internal Audit**

- 4.5 Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the Council's Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme of work approved by the Council's Audit Committee. The Annual Audit Plan is based on a formal risk assessment, which is revised on an ongoing basis to reflect emerging risks and changes within the Council.
- 4.8 All Internal Audit reports identifying system improvements or non-compliance with expected controls are brought to the attention of management and include agreed action plans. It is management's responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations.

**SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE (CONTINUED)**

**The work of Internal Audit**

4.9 The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risk of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the Corporate Management Team on a bi-monthly basis, and to the Council's Audit Committee at each committee cycle.

**Quality and Improvement Programme**

4.10 PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that the internal audit activity:

- Is conducted in accordance with an Internal Audit Charter.
- Operates in an efficient and effective manner.
- Is perceived to be adding value and improving operations.

4.11 An internal self-assessment of internal audit practices has been carried out by Internal Audit every year since PSIAS became effective on 1st April 2013, with improvements identified and implemented as appropriate.

4.12 PSIAS also requires, as outlined in Standard 1300 "QAIP", that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation." The current external review was due to be carried out during 2020-21 however this was deferred due to the pandemic. The review has now been rescheduled for July 2023. The internal self-assessment exercise for 2022-2023 confirms a high level of compliance and that the Internal Audit Section generally conforms with the requirements of PSIAS.

**Responsibilities of Management and Internal Audit**

4.13 It is Management's responsibility to maintain systems of risk management, internal control and governance.

4.14 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.

4.15 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

4.16 Public Sector Internal Audit Standards (PSIAS) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that all staff members involved in 2022-23 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

### **Basis of the internal audit assessment**

- 4.17 In accordance with the Public Sector Internal Audit Standards, the assessment on risk management, control and governance is based upon:
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2023 (in accordance with the annual audit plan approved by the Audit Committee);
  - The assessments of risk completed during the preparation and updating of the annual audit plan;
  - Reports issued by Audit Scotland, the Council's External Auditors; and
  - Internal Audit's knowledge of the Council's governance, risk management and performance management and monitoring arrangements.

### **Limitations on the assurance that Internal Audit can provide**

- 4.18 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, internal control and governance are adequate. The most that internal audit can provide to the Chief Executive, S95 Officer and Audit Committee is reasonable assurance based on the work performed.
- 4.19 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 4.20 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.



<b>Satisfactory</b>	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments.</li> <li>• None of the individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>
<b>Generally Satisfactory with some improvement needed</b>	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control.</li> <li>• Red rated issues that are isolated to specific systems or processes.</li> <li>• None of the individual assignment reports have an overall opinion of <b><i>Unsatisfactory</i></b>.</li> </ul>
<b>Major improvement needed</b>	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread.</li> <li>• A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread.</li> <li>• A small number of individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>
<b>Unsatisfactory</b>	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control.</li> <li>• A high number of individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>

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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b> 29 June 2023
<b>Report By:</b>	<b>Head of Legal, Democratic, Digital &amp; Customer Services</b>	<b>Report No:</b> AC/16/23/IS/APr
<b>Contact Officer:</b>	<b>Andi Priestman</b>	<b>Contact No:</b> 01475 712251
<b>Subject:</b>	<b>ANNUAL REPORT ON THE AUDIT COMMITTEE – 2022-23</b>	

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**1.0 PURPOSE**

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is to provide members with the Annual Report on the Audit Committee for 2022/23.

**2.0 RECOMMENDATIONS**

2.1 It is recommended that Members:

- Review and approve the Annual Report on the Audit Committee for 2022/23.
- Agree that the report should be presented to a future meeting of the Council in line with best practice guidance.

**Iain Strachan**  
**Head of Legal, Democratic, Digital & Customer Services**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 It is important that the Committee complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a foundation for sound corporate governance for the Council.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition which incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police. This sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committee Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

### 4.0 PROPOSALS

- 4.1 The Annual Report on the Audit Committee for 2022/2023 is attached as an Appendix to this report for consideration by Members.
- 4.2 Members are asked to review and approve the Annual Report on the Audit Committee for 2022-2023 and agree that the report should be presented to a future meeting of the Council in line with best practice guidance.

### 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk	X		
Human Resources		X	
Strategic (LOIP/Corporate Plan)	X		
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

#### 5.2 Legal/Risk

There is a risk that the Audit Committee does not comply with best practice guidance in relation to demonstrating its effectiveness in providing a foundation for sound corporate governance. The annual report provides this assurance to the Council on the activity of the Committee.

#### 5.3 Human Resources

There are no human resources implications directly arising from this report.

#### 5.4 Strategic

This report helps ensure strong governance, and its findings will help support delivery of the Council Plan adopted by Inverclyde Council on 20 April 2023, and in particular outcome theme 3: Performance, with the Council seeking to provide high quality and innovative services that deliver value for money.

## **6.0 CONSULTATIONS**

6.1 Not applicable. This report summarises the work carried out by the Audit Committee during 2022-2023.

## **7.0 LIST OF BACKGROUND PAPERS**

7.1 CIPFA Guidance on Audit Committees for Local Authorities – October 2022.

**Inverclyde Council**  
**Audit Committee**  
**2022/23 Annual Report**

**Introduction**

This annual report has been prepared to inform Inverclyde Council of the work carried out by the Council's Audit Committee during the financial year 2022/23.

**Meetings**

The Audit Committee met 6 times during 2022/23 comprising meetings on 7 June, 28 June, 18 October 2022, 10 January, 21 February and 25 April 2023 to consider reports relevant to the Audit cycle and other matters as deemed appropriate. Pre-Agenda meetings were also held ahead of Committee meeting involving the Convenor, Vice-Convenor and appropriate officers.

All meetings were held using the Council's hybrid meeting platform to allow remote and physical participation. Meetings have been live-streamed and made available publicly on the Council's live streaming website.

**Purpose and Remit**

The purpose and remit of Audit Committee is detailed in the Council's Scheme of Administration. The core functions of the Audit Committee are to:

- Consider the Council's arrangements relating to the Accounts;
- Consider the Council's arrangements relating to external audit requirements;
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance;
- Review the adequacy of the Council's governance, risk management and internal control arrangements.
- Consider the Council's arrangements relating to internal audit requirements.

To fulfil this remit, the Audit Committee sought assurance on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control to ensure efficient operations and the highest standards of probity and accountability. This was achieved through reports received from Internal Audit, other Council functions and External Audit with focus in particular on internal control and governance.

At each meeting of the Audit Committee it considered significant findings from Internal Audit reports together with monitoring the progress made by management in completing agreed actions to improve the Council's control environment. It also considered the status of external audit action plans arising from external audit reports received and the indicative external audit annual plan for 2022/23 from the newly appointed external auditors in April 2023.

The Audit Committee also received reports on:

- Risk Management.
- National Fraud Initiative.
- CIPFA Guidance for Audit Committees.
- The Internal Audit Charter.
- The Criminal Finance Act 2017 Policy.

#### Membership of the Audit Committee

In accordance with Inverclyde Council's Standing Orders membership of the Audit Committee comprises 11 Elected Members. The quorum of the Audit Committee is 6 Elected Members. In June 2022, the Council appointed the following members to Audit Committee:

Cllr Crowther	Cllr Curley
Cllr McCabe	Cllr McClusky
Cllr McCormick	Cllr McGuire
Provost McKenzie	Cllr McVey
Cllr Nelson (Convenor)	Cllr Reynolds
Cllr Wilson (Vice-Convenor)	

Every meeting of the Audit Committee during 2022/23 was quorate.

#### Attendance by Officers

All meetings were attended by the Chief Financial Officer, Head of Legal, Democratic, Digital and Customer Services and the Chief Internal Auditor.

Other senior officers also attended meetings as appropriate for items on the Agenda for which their presence was relevant. Representatives from the Council's external auditors - Audit Scotland - were present at June and October 2022 meetings and the newly appointed external auditors from KPMG were present at the meeting in April 2023.

#### Audit Committee Activity

The committee received and considered reports from the Chief Internal Auditor in relation to:

- The internal audit annual report and opinion on the Council's internal control environment.
- Information on the performance and effectiveness of the Internal Audit Team.
- The Internal Audit Team's progress in delivering the planned work and summaries of reports issued and updates on the National Fraud Initiative.

This enabled the Committee to oversee the work of Internal Audit and Corporate Fraud in relation to the provision of assurance on the Council's framework of arrangements for risk management, corporate governance and internal control and in terms of corporate counter-fraud arrangements.

## Compliance with Best Practice

During 2022/23 the Audit Committee undertook a self-assessment of the committee's compliance with current best practice. This assessment was against a checklist from the CIPFA guidance "Audit Committees – Practical Guidance for Local Authorities and Police 2022 Edition." In response to this assessment the committee identified some areas for improvement which are being progressed.

## Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee meetings throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in the CIPFA Position Statement relating to its Audit functions.
- It did this through reports received from Internal Audit, External Audit, and assurances from Management. It focussed on matters of governance, risk management and internal control; giving advice to the Council on the value of the audit process; on the integrity of financial reporting; and on governance arrangements.
- For all audit reports, the Audit Committee considered whether it was satisfied that an adequate management response was in place to ensure action would be taken to manage risk and address concerns on governance, risk management and internal control arrangements. The Audit Committee acknowledges that there is a system in place of ongoing follow-up by Internal Audit and reporting to senior management and the Audit Committee.
- The Audit Committee reviewed the draft audited Annual Accounts for 2021/22.

## Conclusion

Based on the reports received and reviewed by the Audit Committee, members are in agreement with the Chief Internal Auditor's annual report and assurance statement which confirmed an overall audit opinion of **Satisfactory** such that that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2022/23 and are satisfied that active monitoring and follow up of agreed action plans is in place.

**6 June 2023**

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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b> 29 June 2023
<b>Report By:</b>	<b>Head of Legal, Democratic, Digital &amp; Customer Services</b>	<b>Report No:</b> AC/17/23/IS/APr
<b>Contact Officer:</b>	<b>Andi Priestman</b>	<b>Contact No:</b> 01475 712251
<b>Subject:</b>	<b>REVIEW OF LOCAL CODE OF GOVERNANCE AND INTERIM ANNUAL GOVERNANCE STATEMENT 2022-23</b>	

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## 1.0 PURPOSE

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is to:

- Advise Members of the outcome of the annual self-evaluation exercise undertaken of the Council's compliance with its Local Code of Governance; and
- Invite Members to consider the interim Annual Governance Statement that will be included in the 2022-2023 Unaudited Accounts.

## 2.0 RECOMMENDATIONS

2.1 The Committee is asked to:

- Note the outcome of the recent self-evaluation exercise in considering how the Council currently meets the agreed Local Code of Governance, together with the issues identified and improvement actions; and
- Consider the detail of the interim Annual Governance Statement for 2022-23 and approve the actions identified by management to improve the internal control environment.

**Iain Strachan**  
**Head of Legal, Democratic, Digital & Customer Services**



### **3.0 BACKGROUND AND CONTEXT**

- 3.1 Inverclyde Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Under the Local Government in Scotland Act 2003, the Council also has a statutory duty to make arrangements to secure Best Value, which is defined as continuous improvement in the performance of the Council's functions.
- 3.2 In discharging these responsibilities, Elected Members and the Corporate Management Team are responsible for putting in place proper arrangements for the governance of the Council's affairs, and for facilitating the effective exercise of its functions, including the arrangements for the management of risk.
- 3.3 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to and engages with communities.
- 3.4 The Council has adopted a Local Code of Governance ("the Local Code") consistent with the seven principles of CIPFA and the Society of Local Authority Chief Executives (SOLACE) framework, "Delivering Good Governance in Local Government" (2016).
- 3.5 Inverclyde Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and publish an Annual Governance Statement.
- 3.6 Following the review of the Audit Committee, carried out in accordance with the contents of the CIPFA publication "Audit Committees: Practical Guidance for Local Authorities and Police" (2022 Edition)", a report was submitted to the Audit Committee meeting on 25 April 2023. One of the actions arising was to submit the draft Annual Governance Statement to the Audit Committee as a stand-alone document for consideration.

### **4.0 PROPOSALS**

- 4.1 The interim Annual Governance Statement for 2022-23 is attached as an Appendix to this report for consideration by Members.
- 4.2 For 2022-2023, the review identified the following governance issues:

A review and refresh of the governance of external organisations process requires to be undertaken to ensure required monitoring processes are undertaken and confirmed through annual reporting to Committee.

- 4.3 In addition, some actions from the 2021-2022 Annual Governance Statement were ongoing through 2022-2023:
  - Business Classification Scheme framework has been developed and is being implemented within all Education establishments. A solution using the M365 platform is being deployed.
  - Workforce planning arrangements require to be refreshed in a number of services in order to develop proposals which address wider issues relating to succession planning due to an ageing profile of some staff groups, staff retention challenges and single person dependencies.
  - The new process for managing risk registers through Pentana is under development and will align with the new strategic planning and performance management framework being implemented from 1 April 2023. This will require training for risk owners on the new process to update risks on Pentana and generate relevant reports. This action will be revised to 30 September 2023 to allow for the update of the risk management strategy and operational guidance and the establishment of a corporate group to oversee the strategy and process.

- 4.4 Members are asked to consider the detail of the Interim Annual Governance Statement for 2022-23 and approve the actions identified by management to improve the internal control environment.

## 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk	X		
Human Resources		X	
Strategic (LOIP/Corporate Plan)	X		
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

### 5.2 Legal/Risk

There is a risk that a failure to maintain a local code of governance and develop a framework to support the gathering and updating of the necessary evidence will leave the Council unable to produce a Governance Statement. The current approach to ongoing annual assessment of compliance and reporting to this Committee ensures that the Council can produce a meaningful Governance Statement and the agreed actions will improve compliance requirements on various aspects of key Council policies and procedures, and in turn mitigate against legal and other risks arising.

### 5.3 Human Resources

There are no human resources implications arising directly from this report.

### 5.4 Strategic

This report helps ensure strong governance, and its findings will help support delivery of the Council Plan adopted by Inverclyde Council on 20 April 2023, and in particular outcome theme 3: Performance, with the Council seeking to provide high quality and innovative services that deliver value for money.

## 6.0 CONSULTATIONS

- 6.1 Relevant officers have been consulted in the self-assessment process, including HR, Legal, Finance and Performance Management.
- 6.2 The CMT has considered and agreed the Interim Annual Governance Statement for 2022-23.

## 7.0 LIST OF BACKGROUND PAPERS

- 7.1 CIPFA: Delivering Good Governance in Local Government Guidance (2016). Copy available from Andi Priestman, Chief Internal Auditor.

### 1. Scope of Responsibility

Inverclyde Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Under the Local Government in Scotland Act 2003, the Council also has a statutory duty to make arrangements to secure best value, which is defined as continuous improvement in the performance of the Council's functions.

In discharging these responsibilities, Elected Members and the Corporate Management Team are responsible for putting in place proper arrangements for the governance of the Council's affairs, and for facilitating the effective exercise of its functions, including the arrangements for the management of risk. The Council has established two Arms-Length External Organisations – Inverclyde Leisure and Riverside Inverclyde – to deliver services more effectively on the Council's behalf, and which report regularly to Elected Members. From 1 April 2016, the Inverclyde Integration Joint Board was established for the formal integration of health and care services between Inverclyde Council and the NHS Greater Glasgow and Clyde.

The Council has adopted a Local Code of Corporate Governance ("the Local Code") consistent with the seven principles of CIPFA and the Society of Local Authority Chief Executives (SOLACE) framework, "Delivering Good Governance in Local Government Framework (2016)". A copy of the Local Code can be obtained from the Corporate Policy Unit, Municipal Buildings, Greenock, PA15 1LY.

This statement explains how Inverclyde Council has complied with the Local Code and also meets the Code of Practice on Local Authority Accounting in the UK, which details the requirements for an Annual Governance Statement.

### 2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and through which it accounts to, and engages with communities. It enables the Council to monitor the achievement of its key corporate priorities and strategic objectives set out in the Council's Corporate Plan. It enables the Council to consider whether those objectives have led to the delivery of appropriate value for money services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Internal control cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This governance framework has been in place at Inverclyde Council for the year ended 31 March 2023 and up to the date of the approval of the Statement of Accounts.

### 3. The Governance Framework

The main features of the Council's governance arrangements are described in the Local Code but are summarised below:

- The overarching strategic vision of the Council is detailed in the Council's Plan which sets out the key outcomes the Council is committed to delivering with its partners, as set out in the Inverclyde Local Outcomes Improvement Plan. Services are able to demonstrate how their own activities link to the Council's vision and outcomes through their Corporate Directorate Improvement Plans. These were reviewed and updated during 2022/2023 and will be replaced by Committee Delivery and Improvement Plans from 2023-24 onwards. Performance management and monitoring of service delivery is reported principally through the Policy & Resources Committee and to other Committees on a regular basis. The Corporate Management Team monitors performance information. The Council publishes information about its performance regularly as part of its public performance reporting requirements at <http://www.inverclyde.gov.uk/council-and-government/performance/>.
- The Inverclyde Alliance Partnership Plan sets out the Alliance's approach for engaging with stakeholders. Consultation on the future vision and activities of the Council is undertaken through the Inverclyde Alliance, and through service specific consultations and the Council actively engages the Council's partners through existing community planning networks.

## Appendix 1

- Effective scrutiny and service improvement activities are supported by the formal submission of reports, findings and recommendations from Audit Scotland, the external auditor, Inspectorates and the Internal Audit section to the Corporate Management Team, the relevant service Committee of the Council and, where appropriate, the Audit Committee.
- The Council operates within an established procedural framework. The roles and responsibilities of Elected Members and officers are defined within the Council's Standing Orders and Scheme of Administration, Contract Standing Orders, Scheme of Delegation and Financial Regulations; these are subject to regular review. The Council facilitates policy and decision making through a thematic Committee structure.
- Responsibility for maintaining and operating an effective system of internal financial control rests with the Council's Chief Financial Officer as Section 95 Officer. The system of internal financial control is based on a framework of regular management information, Financial Regulations, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council.
- The Council continues to recognise the need to exercise strong financial management arrangements to manage the financial pressures common to all local authorities and has robust financial control and financial planning processes in place. A self-assessment exercise has been undertaken by officers to assess the level of ongoing compliance with the CIPFA Financial Management Code and reported to Policy and Resources Committee in January 2023.
- The Council's approach to risk management is set out in the risk management strategy and is embedded within the Council's Strategic Planning and Performance Management Framework. Reporting on risk management is undertaken and reported annually to the Audit Committee.
- The Council has adopted a code of conduct for its employees. Elected Members observe and comply with terms of the Councillors' Code of Conduct.
- Comprehensive arrangements are in place to ensure Members and officers are supported by appropriate learning and development.
- In line with CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

### 4. Review of Effectiveness

Inverclyde Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness of the framework is informed by the work of the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and reports from the external auditors and other review agencies and inspectorates.

The review of the Council's governance framework is supported by a process of self-assessment and assurance certification by Heads of Service. Heads of Service were provided with a Self-assessment Checklist to complete and return as evidence of review of seven key areas of the Council's governance framework. As part of this process, Heads of Service were asked to identify their progress on implementing improvement actions identified as part of their 2022-2023 assessments and to identify actions they proposed to take during 2023-2024 to address service governance arrangements. The Corporate and Service Directors then considered the completed evaluations and provided a Certificate of Assurance for their Directorate. In addition, the review of the effectiveness of governance arrangements and the systems of internal control within the group entities places reliance upon the individual bodies' management assurances in relation to the soundness of their systems of internal control.

### Significant Events

The significant incident in late March 2020 and the Council's management as a Category 1 responder during the COVID-19 pandemic has continued to test how well the risk management, governance and internal controls framework operated. The longevity of the Covid-19 pandemic and its extension from 2020/21 into 2021/22 meant that the effect on the Council's businesses, residents and workforce remained an area of concern in 2022/23.

The Council's response to the pandemic and the mobilisation of its staff continued to show the benefits of an agile and proactive workforce using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings and secure remote access to systems to allow remote/home working for a significant number of employees within the Council.

The Covid-19 pandemic and its aftermath is likely to have a lasting impact on income levels, resulting from fundamental changes in social movements, behaviours and preferences.

The Inverclyde IJB was established by parliamentary order on 27 June 2015 following approval of the Inverclyde Integration Scheme by the Scottish Ministers. The Integration Scheme was reviewed during 2019-20 and an updated version of the Scheme was prepared but the Covid-19 pandemic led to this being delayed and the existing scheme rolled on into 2020-21 and continued into 2021-22. The Scottish Government have confirmed that IJBs will be required to review their current integration schemes rather than complete a new scheme. The integration scheme is currently being reviewed by the 6 Greater Glasgow and Clyde IJB's and the aim to seek approval from the Inverclyde IJB by May 2023. The timeline for the completion of this task has slipped due to the scale of the work required for its completion and the requirement for consultation with the Health Board and each Local Authority and a revised timescale requires to be set.

During 2022-23, the Equalities and Human Rights Commission advised the Inverclyde IJB that it considers it to have failed to comply with its Public Sector Equality Duties under the Equality Act 2010 and associated regulations. A number of immediate actions have been taken to remedy the points raised by the EHRC and an Improvement Plan has been developed with clear timescales and responsibilities.

There were no other significant governance issues identified by the review but a number of issues worthy of noting were identified and are detailed in Section 7 together with progress made in implementing improvement actions identified during 2021-2022. We propose over the coming year to take steps to address these matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement which were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

### 5. Roles and Responsibilities of the Audit Committee and the Chief Internal Auditor

Elected Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services. The Council's Audit Committee operates in accordance with CIPFA's Audit Committee Principles in Local Authorities in Scotland and Audit Committees: Practical Guidance for Local Authorities.

The Audit Committee performs a scrutiny role in relation to the application of CIPFA's Public Sector Internal Audit Standards 2017 (PSIAS) and regularly monitors the performance of the Council's Internal Audit service. The Council's Chief Internal Auditor has responsibility to review independently and report to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of conformance with the PSIAS.

The Internal Audit service undertakes an annual programme of work, approved by the Audit Committee, based on a strategic risk assessment. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control.

The Chief Internal Auditor has conducted a review of all Internal Audit reports issued in 2022-2023 and the Certificates of Assurance from Corporate and Interim Directors. In conclusion, although no systems of internal control can provide absolute assurance, nor can Internal Audit give that assurance, on the basis of the audit work undertaken during the 2022-2023 financial year, the Chief Internal Auditor is able to conclude that a reasonable level of assurance can be given that the system of internal control is operating effectively within the Council.

### 6. Compliance with Best Practice

The Council complies with the requirements of the CIPFA Statement on "The Role of the Chief Financial Officer in Local Government 2010". The Council's Chief Financial Officer (Section 95 Officer) has overall responsibility for the Council's financial arrangements, and is professionally qualified and suitably experienced to lead the Council's finance function and to direct finance staff.

The Council complies with the requirements of the CIPFA Statement on "The Role of the Head of Internal Audit in Public Service Organisations 2010". The Council's Chief Internal Auditor has responsibility for the Council's Internal Audit function and is professionally qualified and suitably experienced to lead and direct the Council's Internal Audit staff. The Internal Audit service generally operates in accordance with the CIPFA "Public Sector Internal Audit Standards 2017".

## 7. Governance Issues and Planned Actions

The Council continues to recognise the need to exercise strong management arrangements to manage the financial pressures common to all Local Authorities. Regular reviews of the Council's arrangements are undertaken by Internal Audit and overall the Council's arrangements are generally satisfactory. The table below sets out the improvement actions to the governance framework which were identified from the Council's ongoing review and monitoring of the effectiveness of its governance arrangements. These represent corporate initiatives that will be further progressed during 2023-2024.

	Where are we now?	Where do we want to be?	How will we know we are getting there?	Who is responsible?
B/F 1	BCS framework has been developed and is being implemented within all Education establishments. A solution using the M365 platform is being deployed.	Business Classification Scheme is fully implemented within all Education establishments.	An update was provided to the April 2023 meeting of the Audit Committee as this is an outstanding audit action.  A solution using the M365 platform has been identified which will be fully implemented by 30 June 2023.	Corporate Director, Education, Communities and Organisational Development  30 June 2023
B/F 2	Some service workforce plans within Environment and Regeneration require to be refreshed in order to develop proposals which address wider issues relating to succession planning due to an ageing profile of some staff groups, staff retention challenges and single person dependencies.	Workforce plans are in place which determine future workforce needs and implement solutions to ensure that organisational needs are aligned with the Council's people strategy.	E&R Committee Delivery and Improvement Plan for 2023-24 includes a specific action to improve workforce and succession planning and the skills gaps arising from an ageing workforce.	Director, Environment and Regeneration  31 March 2024
B/F 3	All service risk registers were reviewed and updated during 2022-23.  The new process for managing risk registers through Pentana is under development and will align with the new strategic planning and performance management framework being implemented from 1 April 2023. This will require training for risk owners on the new process to update risks	Risk management strategy and underlying operational guidance aligns to the Council's strategic planning and performance management framework.	The risk management strategy and guidance will be reviewed and updated to reflect the Council's revised approach to strategic planning and performance management.  The risk management strategy and operational guidance will also be updated to reflect the revised approach.  A corporate group will be established to oversee the	Chief Internal Auditor  30 September 2023

## Appendix 1

	on Pentana and generate relevant reports.		risk management strategy and process.	
<b>NEW</b> <b>4</b>	A review and refresh of the governance of external organisations process requires to be undertaken to ensure required monitoring processes are undertaken and confirmed through annual reporting to Committee.	The Council maintains strong governance of external organisations.	The governance of external organisations process will be reviewed and refreshed to ensure required monitoring processes are undertaken and confirmed through annual reporting on key partnerships to Committee.	Chief Financial Officer 30 November 2023

In addition, the status of action plans from 2021-2022 Annual Governance Statement (AGS) is set out in the undernoted table:

	Agreed Action	Status at 31/3/23	Further Action	Who is responsible?
<b>1</b>	Workforce planning arrangements require to be refreshed in a number of services in order to develop proposals which address wider issues relating to succession planning due to an ageing profile of some staff groups, staff retention challenges and single person dependencies.	A refresh of workforce plans is outstanding for some services within Environment and Regeneration.	Links to 2022-23 action plan number 2	Director, Environment and Regeneration 31 March 2024
<b>2</b>	Discussions are ongoing with key suppliers in some services to determine business continuity arrangements for cyber security risks.	Business continuity arrangements with key suppliers fully consider cyber security risks.  Complete	N/A	N/A
<b>3</b>	Current service review guidance documentation is being reviewed to ensure this remains fit for purpose in order to improve the Council's efficiency and effectiveness and assist in addressing financial sustainability.	Service review guidance documentation was reviewed and updated during 2022-2023 to reflect best practice guidance for services undertaking service reviews.  Complete	N/A	N/A

## Appendix 1

4	<p>Processes for document retention and disposal of records are currently being reviewed by the Council's Information Governance Steering Group to ensure the use of EDRMS is maximised within Services.</p>	<p>Included in Digital Modernisation update to P&amp;R on 21 March 2023.</p> <p>Complete</p>	N/A	N/A
5	<p>Some service risk registers were not reviewed on a regular basis during 2021-22 due to other work priorities as a result of Covid.</p> <p>A new process is being developed to incorporate service risk registers within the Pentana system. This will include an automated reminder for risk owners to carry out a review of service risk registers to ensure risk assessments are maintained up to date and there is regular reporting to directorate and corporate management teams on the status of key risks.</p>	<p>Service risk registers were reviewed during 2022-2023.</p> <p>The risk management strategy and guidance will be reviewed and updated to reflect the Council's revised approach to strategic planning and performance management.</p> <p>The risk management strategy and operational guidance will also be updated to reflect the revised approach.</p>	Links to 2022-23 action plan number 3	<p>Chief Internal Auditor</p> <p>30 September 2023</p>



## Appendix 1

6	BCS framework has been developed and is being implemented within all Education establishments as part of the move over to the corporate network. The pilot exercise was undertaken however the rollout to remaining schools was halted as a result of responding to COVID-19.	<p>An update was provided to the April 2023 meeting of the Audit Committee as this is an outstanding audit action.</p> <p>A solution using the M365 platform has been deployed. Education are finalising the structure and user permissions for the business classification scheme which will then be implemented by ICT.</p> <p>Secure email accounts have now been created for relevant Education Services staff and ICT are carrying out some final data cleansing prior to going live.</p>	(see action point 1 on 2022-2023)	<p>Corporate Director, Education, Communities and Organisational Development</p> <p>30 June 2023</p>
7	An assessment has been undertaken by officers of compliance with the CIPFA Financial Management Code which confirms that the Council is compliant with the main aspects of the Code. This needs to be formally adopted by the Council.	<p>The Council has formally adopted the CIPFA Financial Management Code. Included in Finance Update report to Policy and Resources Committee on 31 January 2023.</p> <p>Complete</p>	N/A	N/A

### 8. Assurance

Subject to the above, and on the basis of the assurances provided, we consider the governance and internal control environment operating during 2022-2023 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.

**CIlr Stephen McCabe**  
Leader of the Council

**Louise Long**  
Chief Executive

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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>29 June 2023</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/35/23/AP</b>
<b>Contact Officer:</b>	<b>Matt Thomson</b>	<b>Contact No:</b>	<b>01475 712256</b>
<b>Subject:</b>	<b>EXTERNAL AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2023</b>		

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## **1.0 PURPOSE AND SUMMARY**

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is to present the final External Audit Plan for the year ended 31 March 2023 following consideration of the Indicative Plan by the Committee on 25 April 2023.

1.3 The final External Audit Plan is unchanged from that previously considered.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee note the contents of the External Audit Plan for the year ended 31 March 2023.

**Alan Puckrin**  
**Chief Financial Officer**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 Each year the Council's appointed External Auditors produce an Audit Plan highlighting key items relevant to the audit of the Council's annual accounts and wider scope matters.
- 3.2 The newly appointed External Auditors, KPMG, produced an indicative plan which was presented to the Audit Committee on 25 April 2023. The Auditors have now provided the final plan which is essentially unchanged to that previously presented.
- 3.3 Officers from KPMG will be present at Committee and answer any questions that Members may have on the contents.

### 4.0 PROPOSALS

- 4.1 It is proposed that Committee note the Plan and seek clarification from the Council's External Auditors on any relevant matters.

### 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed:

SUBJECT	YES	NO
Financial		x
Legal/Risk	x	
Human Resources		x
Strategic (Partnership Plan/Council Plan)		x
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		x
Environmental & Sustainability		x
Data Protection		x

### 5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

### **5.3 Legal/Risk**

The Plan highlights a number of assessed risks identified and the approach the External Auditors propose to take to review management approach to addressing these risks.

### **5.4 Human Resources**

There are no HR matters arising.

### **5.5 Strategic**

The plan assesses a number of areas including financial sustainability, financial management, vision, leadership and governance and use of resources to improve outcomes and as such contributes towards strong corporate governance.

## **6.0 CONSULTATION**

6.1 The Corporate Management Team were consulted on the Indicative Plan.

## **7.0 BACKGROUND PAPERS**

7.1 None.



# External Audit Plan for the year ended 31 March 2023

**Inverclyde Council**

**FINAL DRAFT**

**25 April 2023**

## Key contacts

Your key contacts in connection with this report are:

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#### About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is intended for the benefit of Inverclyde Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report and it will not be quoted or referred to, in whole or in part, without our prior written consent. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

# Introduction

## To the Audit Committee of Inverclyde Council

We are pleased to have the opportunity to meet with you on 25 April 2023 to discuss our anticipated approach to the audit of the financial statements of Inverclyde Council, as at and for the year ending 31 March 2023.

Our audit plan incorporates key changes required as a result of changes to both *International Auditing Standard (ISA) UK 315: Identifying and assessing the risks of material misstatement* and *ISA 240: The auditors responsibilities relating to Fraud*.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

### The engagement team

Michael Wilkie is the engagement leader on the audit. Michael will lead the engagement and is responsible for the audit opinion. Christopher Paisley will be the manager responsible for the audit and will be responsible for overseeing the delivery of our audit. Other key members of the engagement team include Henry Lau (Assistant Manager).

Yours sincerely,

Michael Wilkie

5 June 2023

## How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion that is also important.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity**.

## Restrictions on distribution

This report is intended solely for the information of those charged with governance of Inverclyde Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Materiality (Group and Council)

Total group expenditure\*  
£376.1m

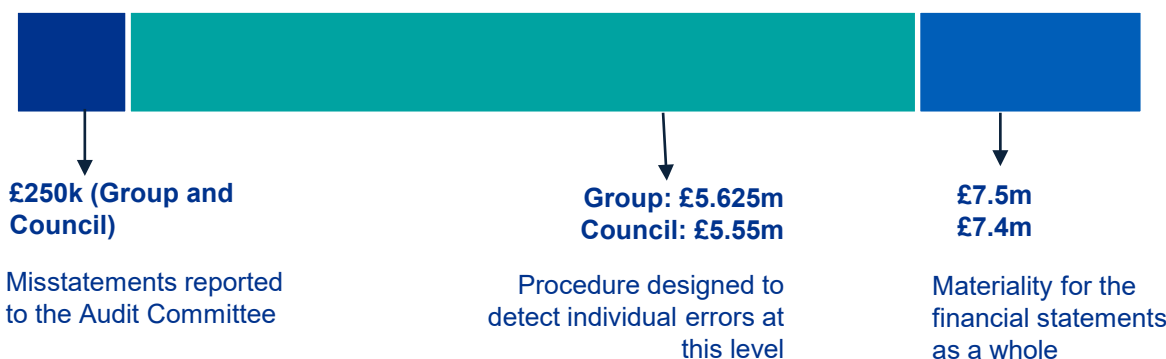
Total council expenditure\*  
£373.7m

\*Based on 2021-22  
financial statements.



Group materiality  
£7.5m  
2% of total expenditure

Council materiality  
£7.4m  
2% of expenditure



## Our materiality levels

The materiality levels outlined above are set based on 2021/22 audited financial statements. If actual total group expenditure as per the draft financial statements varies materially from the prior period figure, we will revisit our materiality assessment. We determine materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We expect to use a benchmark of total expenditure (excluding asset impairments and defined benefit pension charges) which we consider to be appropriate as it reflects the scale of the Authority’s services and we consider this most clearly reflects the interests of users of the Authority’s accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors’ salary information in the remuneration report.

## Reporting to the audit committee

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council and its Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Audit risks and our audit approach

**This section of our report sets out the expected audit risks we anticipate to focus on and to take up significant audit time.**

**Our risk assessment draws upon our knowledge of the industry and the wider economic environment in which Inverclyde Council operates.**

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

We will update our risk assessment once we have completed our detailed planning procedures and provide a further update in our Audit Plan and Strategy.

## Relevant factors affecting our risk assessment

---

### Significant risks

---

- |   |   |
|---|---|
| 1 | Valuation of land and building<br>(revaluation required by the Code)              |
| 2 | Retirement benefit obligations<br>(assumptions and methodology)                   |
| 3 | Fraud risk from income recognition and expenditure<br>(presumed risk per ISA 240) |
| 4 | Fraud risk from management override of controls<br>(presumed risk per ISA 240)    |
-

# Audit risks and our audit approach

## Valuation of land and buildings

### Significant audit risk

**Risk: The carrying amount of land and buildings differs materially from the fair value**

The value of the Council's Other Land and Buildings at 31 March 2022 was £362.0m, in addition to Schools PPP assets of £93.8m.

The Code requires that where land and buildings are subject to revaluation, their year end carrying value should reflect the fair value at that date. Any asset valuation carries with it risks of estimation uncertainty. The size of the land and buildings balance relative to our expected materiality means that the risk of a material difference between carrying value and fair value is increased.

The Council is planning to commission a full revaluation of 20% of its land and buildings, excluding infrastructure assets, in addition to indexation being applied to the remaining assets not formally revalued.

### Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of Avison Young, the valuers used in developing the valuation of the Council's properties at 31 March 2023;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Code;
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation, including the use of relevant indices and assumptions around physical and functional obsolescence;
- We will perform inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the Code;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the Code; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach

## Risk of retirement benefit obligations

### Significant audit risk

**Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation**

The valuation of the Local Government Pension Scheme (Strathclyde Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Additionally this year, the updated triennial valuation as at 31 March 2022 will be reflected in the accounts. This means that we will need to perform additional procedures around new data inputs to the valuation such as updated membership data.

### Planned Response

*Control design:*

- Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation.

*Benchmarking assumptions:*

- Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.
- Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.

*Assessing transparency:*

- Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.
- Assessing if the disclosures within the financial statements are in accordance with the 2022-23 Code's requirements.

# Audit risks and our audit approach

## Risk from income recognition and expenditure

### Significant audit risk

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

#### *Income*

We consider that the Council's significant income streams, which include taxation and non-specific grant income are likely to be free of management judgement or estimation. At the planning stage, we do not consider recognition of the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. **We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.**

**We will continue to assess this as we complete our planning and risk assessment and report any changes to Audit Committee in June.**

#### *Expenditure*

We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs (including pension adjustments), financing and investment expenditure, or depreciation. These costs are routine in nature and are at less risk of manipulation. This relates to a significant proportion of council expenditure.

**We have not at this stage rebutted the assumed risk in respect of the remaining expenditure of and consider the risk will be most likely to arise in respect of cut-off of expenditure around year-end, which at the planning stage we consider could result in a risk around the completeness (understatement) or existence (overstatement) of accrued expenditure and payables.**

**We will continue to assess this as we complete our planning and risk assessment and report any changes to Audit Committee in June.**

In response to the expected significant risk relating to recognition of non-pay expenditure, we will include procedures to:

- compare the outturn with the in year budget monitoring, considering variances;
- compare the year-end accruals and payables balances with those recognised at 31 March 2022 to identify any new accruals as well as any recorded in the prior period which have not been recognised at 31 March 2023;
- test expenditure cut-off including a search for unrecorded liabilities; and
- test transactions focusing on the areas of greatest risk in terms of subjectivity, which provide the most opportunity to manipulate the year-end outturn, including creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances.

# Audit risks and our audit approach

## Management override of controls

### Significant audit risk

#### The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

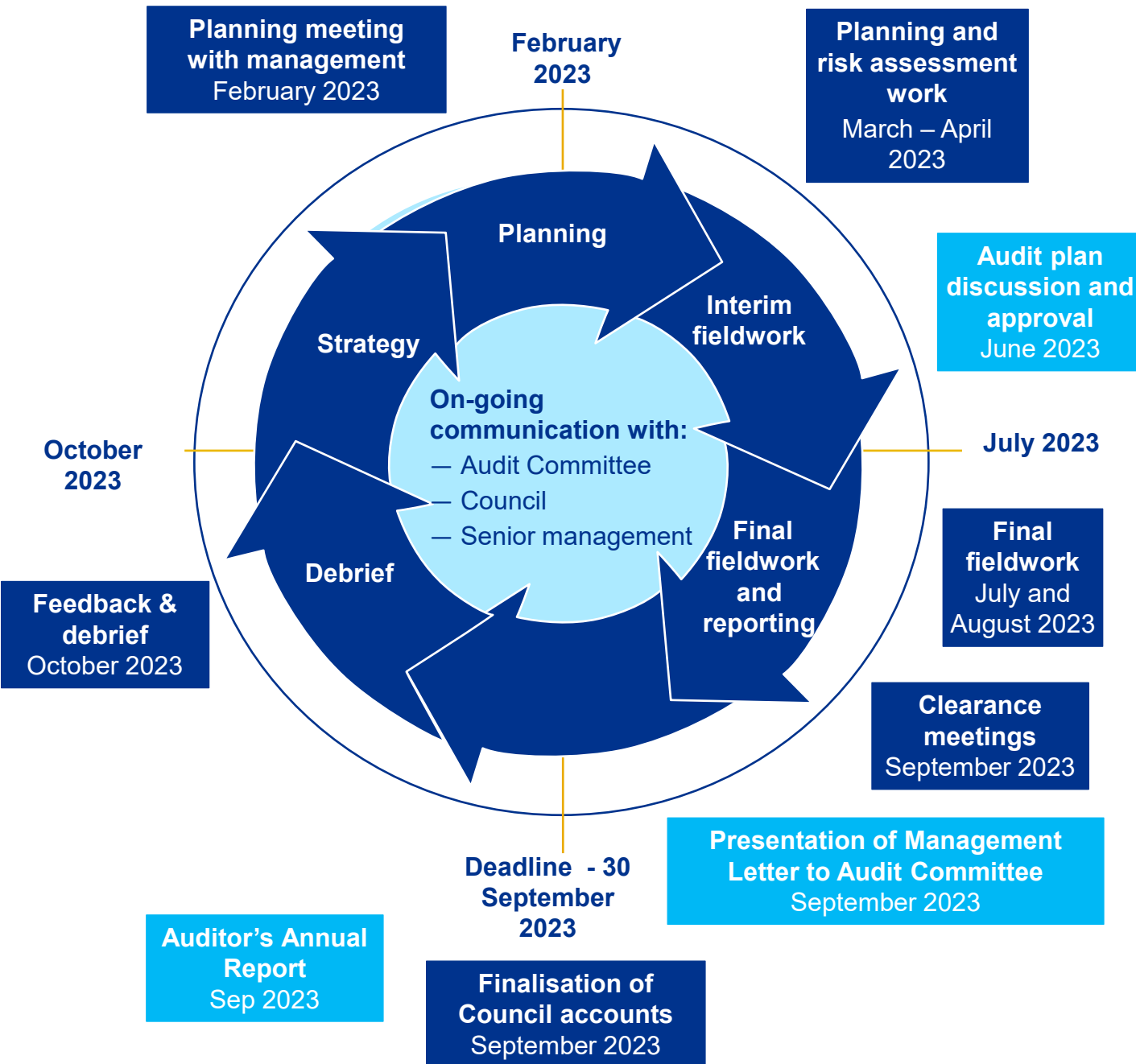
We have not identified any specific additional risks of management override relating to this audit.

### Planned response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate.
- We will evaluate the design and implementation of general IT controls.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks.
- We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the Council’s normal course of business, or are otherwise unusual.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

# Audit cycle and expected timetable

## Our 2022/23 schedule



- Key Events
- A(RA)C communications



# Wider scope and best value approach

Inverclyde Council

# Wider scope and best value

## Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We have not, at this stage of our planning, identifies any significant wider scope risks. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

## Risk assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from the work of the predecessor auditor, including the response to that work.
- The work of other inspectorates and review agencies, through the Local Area Network ("LAN") which is established for each council.

## Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and Best Value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, many aspects of which are relevant to our wider scope and Best Value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope and Best Value work, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work.



# Wider scope and best value

## Approach (continued)

### · Identification of significant risks

The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'

If we identify significant wider scope and Best Value risks, we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies.
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

### · Concluding on wider scope and Best Value

At the conclusion of the wider scope and Best Value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions and Best Value, regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope and Best Value conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

### · Reporting

We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and Best Value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

# Wider scope and best value

## Approach (continued)

### Financial Sustainability

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

#### Audit Approach

- We will consider the Council's long term financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2022-23 budget and longer term financial plans from 2023-24 and beyond.
- We will monitor the Council's key performance indicators and performance reporting, to identify any trends requiring further investigation. We will consider any overspends against budget where demand has caused a significant strain on funding, as well as underspends against budget due to staff slippages where roles have been hard to fill.
- We will inquire with officers surrounding their reporting to members surrounding the assumptions and judgements made in forecasting future funding and expenditure pressures.
- We will consider how major capital projects are planned to be funded, including the revenue and capital consequences.

### Financial Management

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

#### Audit Approach

- We will consider the Council's systems and processes for budget setting and monitoring.
- We will review the financial results to 31 March 2023 compared to budget to consider if there are indications that savings are not being delivered as planned.
- We will consider the Council's approach to setting a balanced budget for 2023-24 and considering implications and delivery of the budget in our Annual Audit Report.

# Wider scope and best value

## Vision, Leadership and Governance

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

### Audit Approach

- We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.
- We will continue to report on how the Council supports and maintains decision making, and conclude on its effectiveness.
- We will consider how officers present impact on equalities through equality impact assessments when members debate motions and actions. This will include, but is not limited to reporting on how the Council is committed to equal opportunities through internal activities (such as training, procurement and policy development), demonstration of diversity in the workforce, review of equal pay and policy development to eliminate potential areas of discrimination.
- We will also consider how the council reports on its equality and fairness responsibilities to the public and its communities.

## Use of Resources to Improve Outcomes

**Use of Resources to Improve Outcomes** is concerned with how effectively resources are used to provide services.

### Audit Approach

- We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement in respect of the Performance and outcomes audit programme.
- In the context of the Council's capital plan and procurement procedures, we will consider arrangements to provide value for money.



# Appendices

# Mandatory communications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
Auditor's responsibilities	Our engagement letter with Audit Scotland communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our engagement letter with Audit Scotland communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – wider scope and best value	Our value for money methodology slide on pages 12 -15 set out our responsibilities for reporting on wider scope and best value. We have set out on these pages the methodology we will adopt in discharging our responsibilities in these areas.
Independence	Our independence confirmation on page 20 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

# Confirmation of independence

## Assessment of our objectivity and independence as auditor of the Inverclyde Council (“the Council”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.

Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

## Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the council and its affiliates for professional services provided by us during the reporting period. No non-audit services are expected to be provided during 2022/23.

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully  
*KPMG LLP*

# Audit team and rotation

Your audit team has been drawn from our specialist public sector audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.

	<p>Michael Wilkie is the director responsible for our audit. He will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.</p>
	<p>Christopher Paisley is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and wider scope work.</p>
	<p>Henry Lau is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.</p>

To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:



This will be Michael’s first year as your engagement lead. He can therefore complete a further 9 years before rotation.

# Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2022-23. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (\*\* average of Tender values)
- Audit Scotland Pooled costs
- Audit Scotland Audit Support Costs
- Audit Scotland sectoral cap adjustment

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Entity	2022/23	2021/22
Auditor Remuneration **	£233,700	£168,780
Pooled Costs	£0	£17,590
PABV Contribution	£55,820	£69,960
Audit Support Costs	£8,860	£9,010
Sectoral Cap Adjustment	£240	-
<b>TOTAL AUDIT FEES (Incl VAT)</b>	<b>£298,620</b>	<b>£265,340</b>

**Source: Audit Scotland**

## Billing arrangements

Fees will be billed by Audit Scotland in accordance with a billing schedule as outlined in correspondence with management.

## Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Board's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.



# Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

## Management responsibilities

Adopt sound accounting policies.  
With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.  
Establish proper tone/culture/ethics.  
Require periodic confirmation by employees of their responsibilities.  
Take appropriate action in response to actual, suspected or alleged fraud.  
Disclose to Audit Committee and auditors:

- Any significant deficiencies in internal controls; and
- Any fraud involving those with a significant role in internal controls

## KPMG's response to identified fraud risk factors

Accounting policy assessment.  
Evaluate design of mitigating controls.  
Test effectiveness of controls.  
Address management override of controls.  
Perform substantive audit procedures.  
Evaluate all audit evidence.  
Communicate to Audit Committee and management.

## KPMG's identification of fraud risk factors

Review of accounting policies.  
Results of analytical procedures.  
Procedures to identify fraud risk factors.  
Discussion amongst engagement personnel.  
Enquiries of management, Audit Committee, and others.  
Evaluate broad programmes and controls that prevent, deter, and detect fraud.

## KPMG's identified fraud risk factors

—Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly:

- Income recognition;
- Cash;
- Procurement;
- Management control override; and
- Assessment of the impact of identified fraud.

# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of management

### Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council;
- maintaining proper accounting records; and
- preparing and publishing, 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. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of management

### Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Corporate governance arrangements

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.

### Financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

### Best Value, use of resources and performance

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of auditors

### Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

# Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
<p><b>General principles</b></p> <p>This Code is designed such that adherence to it will result in an audit that exhibits these principles.</p>
<p><b>Independent</b></p> <p>When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.</p> <p>Our independence confirmation letter (<b>Appendix two</b>) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> <p>We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.</p>
<p><b>Proportionate and risk based</b></p> <p>Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies’ self-assessment and self-evaluation evidence when assessing and identifying audit risk.</p>
<p><b>Quality focused</b></p> <p>Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.</p>

# Audit Scotland code of audit practice – responsibility of auditors and management

<b>Responsibilities of auditors</b>
<p><b>Coordinated and integrated</b></p> <p>It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.</p>
<p><b>Public focussed</b></p> <p>The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm’s-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.</p>
<p><b>Transparent</b></p> <p>Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.</p>
<p><b>Adds value</b></p> <p>It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.</p>



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