
Report To:	Audit Committee	Date:	02.03.09
Report By:	Corporate Director Improvement and Performance	Report No:	AC/09/09/PW/APr
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Subject:	EXTERNAL AUDIT PROGRESS REPORT		

1.0 PURPOSE

- 1.1 The purpose of this report is to present to Members the reports produced by Audit Scotland since the last Audit Committee meeting.

2.0 SUMMARY

- 2.1 Two reports has been finalised by Audit Scotland since the last Audit Committee:-
- The Audit of Best Value and Planning – Inverclyde Council Progress Report.
 - Annual Audit Plan – 2008/09
- 2.2 A representative from Audit Scotland will be in attendance at the meeting in order to address any issues arising from these reports.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members consider the matters raised in these reports.

Paul Wallace
Corporate Director
Improvement and Performance

4.0 BACKGROUND

- 4.1 Members of the Audit Committee are required to monitor progress by Audit Scotland who are responsible for the external audit of the Council to enable them to discharge their scrutiny and performance monitoring roles.
- 4.2 In practice, audit plans and findings are reported by Audit Scotland to the Council in a series of reports.
- 4.3 Members are provided with copies of each report to support their understanding and knowledge of the matters raised.

5.0 IMPLICATIONS

- 5.1 Legal: None
Finance: None
Personnel: None
Equalities: None

6.0 CONSULTATIONS

- 6.1 Consultations took place with relevant officers throughout the audit process.

7.0 LIST OF BACKGROUND PAPERS

- 7.1 Audit Scotland's External Audit reports
 - The Audit of Best Value and Planning – Inverclyde Council Progress Report.
 - Annual Audit Plan - 2008/09.

The Audit of Best Value and
Community Planning

Inverclyde Council

Progress report



Prepared for the Accounts Commission
January 2009

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £18.9 billion of public funds a year.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Commission findings



1. In January 2007, the Accounts Commission considered the Controller of Audit's report on the second Best Value follow-up audit of Inverclyde Council and required the Controller of Audit to make a further follow-up report on the council's progress. We accept this report as fulfilling that requirement. We recognise that the report gives a broad picture of the council's performance based on the work of Audit Scotland and does not attempt a comprehensive review of all service delivery. We acknowledge the co-operation and assistance given to the audit process by members and officers of the council.

2. The Commission is pleased to welcome the significant progress which Inverclyde Council has made since the initial Best Value Audit report was published in June 2005, and the improvement in the council as a result of its work to address the issues raised in that report and the two subsequent follow-up reports.

3. We note the improvements listed in the Controller of Audit's report and, in particular, the work on setting a clear strategic direction through community and corporate plans and the changes to political management arrangements and management structures. We would urge the council to make progress with its review of the competitiveness of its trading operations.

4. We are pleased to note that the council is embracing the challenging agenda ahead of it with clear commitment and renewed energy and enthusiasm. We look forward to the council maintaining the momentum it has established and continuing to improve.

Introduction



The Local Government in Scotland Act 2003 introduced statutory duties relating to Best Value and Community Planning. The first Best Value Audit report on Inverclyde Council was published in June 2005.

The report described a council with some areas of good service performance, but where the building blocks of best value were underdeveloped and where significant remedial action was required before the council could achieve further improvement. In its findings, the Accounts Commission said that there was considerable scope for improvement and that a number of changes would be needed if the council was to deliver best value. In particular, it highlighted the need for more effective leadership by senior managers and elected members, greater consistency in decision-making and scrutiny by elected members, and a more effective approach to corporate strategic management. The Commission also highlighted the need to develop a continuous improvement culture and a clear approach to demonstrating value for money and competitiveness.

A follow-up report was published in November 2005. The report noted that progress had been made, but that there was still a long way to go. The council had responded to the Accounts Commission's findings by setting up a Recovery Group and seeking external support, but a hiatus developed during the summer of 2005. At the end of September 2005, the council's former chief executive left the council. Over the following months the council established interim management arrangements and began to programme the various actions required to improve the leadership and management of the council. The Accounts Commission was clear that the council's improvement agenda was challenging. It expressed concern about the continued pressure on front-line staff, and highlighted the need to sustain a focus on delivering high-quality services to the people of Inverclyde.

It accepted that circumstances during the initial six months of recovery might have limited the progress that could have been made, but called for a significant increase in the pace of change during the next phase.

In February 2007, the Accounts Commission considered a second follow-up report. The Commission acknowledged the progress made as the council had appointed a new chief executive, established a new management structure and appointed a corporate management team. The Commission also noted that member/officer relations had improved and that new political management arrangements were in place.

The Commission went on to state: *"We recognise that much of the activity in the recovery period has necessarily focused on matters of governance, structures and management processes and has not yet flowed through to service improvement. The task for the council is now to embed its new structures and arrangements and concentrate on key priorities so that it can realise the benefits of improved performance in respect of its services."*

The Commission requested a further report from the Controller of Audit on the council's progress up to 30 June 2008. This report provides an update on the progress that Inverclyde Council has made up to September 2008 in delivering its improvement programme, and provides information about other priority areas such as the housing stock transfer and service performance.

The 2007 elections saw 12 of the 20 members newly elected and the previous Liberal Democrat administration was replaced with a minority Labour administration. Following a recent resignation from the Labour group, the council is currently in the process of determining the make-up of the administration.

We gratefully acknowledge the cooperation and assistance provided to the audit team by Councillor Stephen McCabe, leader of the council; John Mundell, chief executive; the corporate management team and all other elected members and staff involved.

Conclusions



The council has made significant progress in delivering its improvement agenda. Many of the building blocks of best value are now in place and provide a solid foundation for further improvement. Since the last progress report, the council has set a clear strategic direction in new community and corporate plans, improved its medium to long-term planning and implemented changes to its political management arrangements and management structures. New systems and processes are starting to become embedded and service performance is improving. The council recognises that further improvement is needed and demonstrates a clear commitment to continuous improvement. Trading activities remain to be reviewed to ensure competitiveness.

1. The council has made very good progress in delivering its recovery and improvement programmes. These have been the main vehicle to address previous concerns and to establish and progress wider strategic objectives.

2. The council has:

- produced medium to long-term corporate, community and directorate plans
- implemented a financial strategy to support strategic plans
- developed a strategic planning and performance management framework
- established a new political management structure
- introduced enhanced member support and development arrangements
- implemented a new management structure

- transferred ownership of housing stock to housing associations
- developed a funded school estate management plan up to 2024
- implemented a Single Status Agreement
- established a Community Health Partnership with NHS Greater Glasgow & Clyde
- jointly established and consolidated the work of Riverside Inverclyde urban regeneration company.

3. The council has agreed a clear strategic direction and has made good progress in developing a business planning framework, which articulates its vision and strategic priorities. Corporate performance reports are presented to committees on a regular basis and highlight progress against the new corporate and community plans. Directorate performance information is regularly reported to committees.

4. New structures, systems and processes are becoming embedded and are providing a platform to support improvement and service delivery. The recently developed financial strategy complements the community and corporate plans and provides direction on how the council will manage its financial resources in the challenging times ahead.

5. The council has invested in an extensive training programme to support elected members and continued to engage with external consultants to provide additional support to deliver its improvement agenda. Elected members and senior managers work well together and provide strong and effective leadership. Committee structures have been reviewed to streamline decision-making and improve scrutiny, and members benefit from better reporting.

6. An extended corporate management team including heads of service was introduced in April 2008 and aims to increase capacity in managing and implementing change. The council's risk registers highlight the availability of sufficient capacity as critical in meeting customer demands. Although the council has implemented Single Status, it recognises that progress in developing a workforce plan has been limited and that it needs to increase effort and momentum to provide direction in bringing together workforce requirements.

7. Service performance is improving. The council's education service continues to perform strongly and attainment levels are high despite the scale of deprivation in the area. The council has received inspectorate reports on education, social work, homelessness and benefits management since the last follow-up report, and these indicate that the council has moved in the right direction across the areas reviewed. The council is currently awaiting an inspectorate report into child protection.

8. All of the workstreams within the council's improvement programme have been progressed with the exception of improving the competitiveness of trading operations, where a review has only recently started. The council has initiated the second phase of its Modernisation and Efficiency Programme to improve operational efficiency and effectiveness.

9. The council is embracing the challenging agenda ahead with clear commitment, and renewed energy and enthusiasm. It now needs to focus on its ability to deliver and demonstrate continuing service improvement and improve customer satisfaction and outcomes.

Progress at Inverclyde Council



Progress on the improvement agenda

The council has made significant progress in delivering its improvement programme. The programme has been closely monitored and scrutinised through regular reports to council, the Policy and Resources Committee and the Corporate Management Team (CMT). This programme has been regularly reviewed and updated, and the council has adopted the public sector improvement framework to support future improvement planning.

10. Since the first Best Value Audit report was published in 2005, the council's improvement agenda has evolved and this has been reflected in a range of improvement programmes. The council's initial 'recovery plan' was superseded by the 'management of change' programme in 2006. This programme was replaced in turn by the 'transformation programme' in 2007. Each of these programmes has been updated to remove completed actions, carry forward ongoing work and integrate new priorities.

11. The 2007 transformation programme carried forward the eight workstreams from the management of change programme:

- chief executive recruitment
- management structure
- political management systems and member/officer relations
- review of member support
- performance management plan
- corporate plan with service plans
- budget and operating plan 2006/07
- review of trading activities.

12. By June 2008, the council had substantially completed six of the eight workstreams that it

planned to conclude by that date. The management structure is almost complete with the fourth tier restructuring in social care outstanding and options to progress this are currently being considered. The council has not made the planned progress in reviewing its trading activities. A review has recently commenced of the arrangements for significant trading operations, and is due for completion by 30 April 2009.

13. The council has made significant progress in delivering 12 additional major corporate initiatives included within the transformation programme. The council successfully delivered the 2007/08 revenue budget and May 2007 elections and has completed the housing stock transfer. Three workstreams relating to community planning, the establishment of Riverside Inverclyde (an urban regeneration company) and a Community Health Partnership have achieved their initial goals. Additional improvement activity has been identified in these areas and incorporated in forward-looking action plans. The council has implemented Single Status based on a 37-hour working week including rationalisation of pay and grading, terms and conditions and allowances.

14. The remaining five areas, relating to the school estate strategy, asset management, external and internal audit, community engagement and modernising agenda, have all been categorised as long-term projects which will take a number of years to complete. Progress in these areas is monitored by the CMT and reported to members through the Policy and Resources Committee on a regular basis.

15. Considerable progress has been made in developing the council's strategic planning and performance management framework and clearer links have been established between the corporate, community and directorate plans. The council is now building on these links and extending the action taken to include the Single

Outcome Agreement (SOA) targets. The inclusive method adopted by the council, involving members, partners and employees at all levels, demonstrates the progress achieved in more effective corporate working.

16. The council now has a fully funded School Estate Management Plan scheduled to be completed by 2024 and has recently entered into a Public Private Partnership (PPP) contract for a further four new schools. Delays have occurred in delivering the balance of the council's other property asset management plans and revised dates have been set. A new monitoring system has been developed by internal audit to track outstanding audit actions and the council has recognised that some deadlines had not been based upon realistic timescales. The council is currently considering how to set more realistic deadlines.

17. In November 2007, the council agreed to move to the next phase of improvement by developing an organisational improvement plan to replace the transformation programme. The council is currently developing the plan taking account of outstanding actions from previous plans and key deliverables identified in the corporate, community and directorate plans and the SOA. The council has adopted the Public Service Improvement Framework self-assessment tool, which has been used by a number of other councils, to support preparation of the plan.

18. The council is working with other councils to conduct a review of operational effectiveness and efficiency at a corporate and service level. The council has engaged external consultants to provide support in conducting the review. An initial diagnostic review has been completed and the council has recently initiated the second phase of this modernisation and efficiency programme; to identify and deliver efficiencies and improvements by changing the way things are done.

Exhibit 1

Strategic Planning and Performance Management Framework



Source: Inverclyde Council

Priorities, strategic direction and business planning

The council has agreed a clear strategic direction and has made good progress in developing a business planning framework.

19. Since our last progress report the council has developed a comprehensive Strategic Planning and Performance Management Framework (Exhibit 1). This integrated approach to planning and performance management has been adopted to improve efficiency and delivery of corporate priorities and brings together planning and performance management arrangements. The framework has recently been updated to take account of the Single Outcome Agreement.

20. The newly created set of plans provides clear direction in taking forward corporate priorities and includes:

- Community Plan 2008-18
- Corporate Plan 2007-11
- Directorate Plans 2008-11
- Performance management and reporting arrangements
- Financial Strategy
- Corporate Communications Framework
- Risk Management Strategy.

21. A wide range of consultation has taken place in producing the community plan, including workshops with members, staff and Community Planning partners. The plan was formally adopted by Inverclyde Alliance (made up of representatives of the council, other public agencies, the private sector and the wider community) in April 2008 and thereafter by the council itself in June 2008.

22. The corporate plan clearly articulates the council's vision and is supported by core values and key principles (Exhibit 2). The plan was prepared following consultation with members, services, community representatives and partner agencies. The council has distributed a newsletter and pledge card about the corporate plan to all staff to create an awareness of the council's vision and values. Key messages from the plan are widely communicated and displayed in council buildings.

23. The council is developing performance indicators to monitor progress against the corporate plan and directorate plans, which have been refreshed to align with the new corporate and community plans.

24. The Single Outcome Agreement was based on the new community and corporate plans and was endorsed by the Inverclyde Alliance. Clearer links have been established across the strategic planning framework and this is providing greater clarity to support the delivery of the council's vision. As this framework has not yet had time to fully bed in, it is too early to assess its effectiveness.

25. The council now needs to work with partners through the Inverclyde Alliance to develop delivery plans and performance management arrangements to support the delivery of agreed outcomes from the community plan and the SOA. The Alliance has recognised that governance arrangements need to be updated to support the SOA.

Exhibit 2

Inverclyde Council, vision, core values, key principles and strategic outcomes

Vision

- An ambitious, confident council, providing strong community leadership that listens and responds to the needs of local communities, delivers excellent services and creates a better quality of life for the people of Inverclyde.

Core values

- We will be confident and ambitious.
- We will be respectful, caring and trustworthy.
- We will be open, honest and accountable.
- We will listen, engage and respond.
- We will strive for excellence in everything.

Key principles

- Regeneration: Everything we do is geared towards the social, economic and environmental regeneration of Inverclyde.
- Partnership: Working in partnership enables us to more effectively tackle the key issues facing Inverclyde.
- Sustainability: We apply the principle of sustainability to all areas of our work.
- Equality: We are committed to providing equality of opportunity both as an employer and as a service provider.

Strategic outcomes

- Educated, informed and responsible citizens.
- Healthy, caring communities.
- Safe, sustainable communities.
- A thriving, diverse economy.
- A modern, innovative organisation.

Source: Inverclyde Council

Leadership and management

The leader of the council and the chief executive are working well together and provide effective leadership. The new CMT is providing improved corporate leadership and direction.

26. The chief executive has continued to demonstrate strong leadership by providing clear direction and a focus on priorities. He is committed to delivering the improvement agenda and holds officers to account for delivering objectives within agreed timescales.

27. The chief executive and council leader have a constructive working relationship and this is leading to clearer strategic direction and delivery of objectives. The leader and chief executive have also demonstrated commitment to involving strategic partners in improving and streamlining services in Inverclyde.

28. The chief executive meets regularly with the council leader and other political group leaders individually and collectively through the Strategic Leadership Forum, to discuss forthcoming issues and

priorities. This has led to a greater feeling of inclusiveness for all groups.

29. Members and officers have commented on the positive culture and increasing sense of confidence and the significant progress made by the chief executive to date. There is heightened optimism within the council in its ability to modernise services. Officers feel that the changes are being led from the top.

30. In the last progress report we noted that a new management structure had been agreed but not all new appointments had been made yet. The recruitment to the head of service posts was completed in February 2007 and a mix of internal and external candidates was appointed. The council has completed recruitment to senior management and team leader level with the exception of team leaders in social care. It is considering aligning its social care structure with the community health partnership to maximise efficient, joint working activity.

31. Good team working has been evident in the CMT. The team will need to continue working cohesively to deliver the council's improvement plan and strategic objectives. An extended corporate management team which consists of the chief executive, corporate directors and heads of service was formed in April 2008. This aims to increase management capacity and strengthen corporate working.

32. An appraisal system has been implemented for chief officers. The chief executive's appraisal is conducted by the council leader; depute leader and leader of the main opposition with the support of an external adviser. Appraisals are also carried out for head teachers, service managers and team leaders within education and social care and the council plans to roll out appropriate arrangements across the organisation. Some slippage has occurred and the council cites resource pressures arising from the finalisation of Single

Status Agreement arrangements as the reason for this. The council needs to build on current arrangements and refocus attention on this to help manage performance within the council in a systematic and effective manner.

Political management systems and member/officer relations

Political decision-making structures have been reviewed and the council has implemented a new committee structure. Elected members and the CMT are benefiting from improved committee reporting arrangements, reports are more timely and informative, clearly outlining issues in a structured and consistent manner.

33. Following the election in May 2007 there were significant changes to the political composition of the council. The Liberal Democrat administration was replaced by a minority Labour administration. Six multi-member wards were created and are represented by 20 councillors.

34. Joint working between parties has been necessary to establish and progress strategic priorities and parties worked well together during the 2007/08 budget setting process.

35. The council carried out a review of the political management arrangements with external support from Queen Margaret University, Edinburgh. The review was an inclusive process involving members and officers. In May 2007, the council agreed new political management arrangements to streamline decision-making and improve scrutiny.

36. The new structure includes:

- Full council
- Policy and Resources Committee
- Policy and Resources (Executive) Sub Committee.

37. The structure also includes four strategic committees:

- Education and Lifelong Learning Committee
- Regeneration Committee
- Safe and Sustainable Communities Committee
- Health and Social Care.

38. The council also has an audit committee and regulatory boards.

39. The council carried out a follow-up review of the decision-making structures in June 2008, which concluded that the structures were fit for purpose and would support progress towards the outcomes defined in the SOA and the corporate and community plans. Governance arrangements, including Standing Orders, Financial Regulations and Scheme of Delegation have been reviewed and updated.

40. There are indications that the council's new political management arrangements are bedding in well with constructive and professional arrangements being formed. Members are increasingly providing constructive challenge at meetings. These arrangements have contributed a sustained improvement in member/officer relations.

41. During the audit some members expressed concerns regarding the timeliness of officer responses to queries raised. The council are now in the process of refining a protocol to define clear standards and procedures to be followed to improve the current arrangements.

Member support and development

The council has developed an extensive programme of support and training for members, including personal development planning. Members need to make full use of the support on offer.

42. Job descriptions were issued to members to provide clarity on their roles in May 2007 and by June 2008 all councillors had completed individual training needs assessments to identify areas for further development. At the time of the audit 18 of the 20 councillors had agreed a personal development plan.

43. Member support was reviewed by external consultants in December 2006. Since then the council has implemented a professional development programme for members, developed a comprehensive member handbook, enhanced administrative arrangements and appointed a members services manager.

44. Attendance levels at training events have varied over the first 12 months of the programme ([Exhibit 3](#)). The council needs to refresh the programme on an ongoing basis to take account of developments within local government and work with members to consider how it can improve attendance levels.

Managing performance

The council has made good progress in developing a performance management framework.

45. Performance reporting is now well established and is an integral part of how the council now carries out its business.

46. The corporate performance report is a standing item on the Policy and Resources Committee and CMT agendas. The reports are structured to measure performance

Exhibit 3

Member training events May 2007 to June 2008

Date	Course	Number of members attended (out of 20)
18/05/07	Induction (1): The Elected Members' Role	14
21/05/07	Induction (2): Building a Best Value Organisation	16
28/05/07	Councillors' Code of Conduct & Standards	13
31/05/07	Council Services and Structures	15
18/06/07	FOI & Data Protection	11
25/06/07	Quasi-Judicial Proceedings	11
26/07/07	Role of the Convenor and Behaviour at Meetings	10
02/08/07	Local Government Finance	8
06/08/07	Recruitment & Selection	11
23/08/07	Treasury Management	15
07/09/07	Audit Functions	8
24/09/07	Role of Members on Outside Bodies	12
01/10/07	Best Value	12
09/10/07	Risk Management	11
18/10/07	Media Training	12
12/10/07	Planning Regime	9
24/01/08	Declaration of Interests/Code of Conduct	14
04/02/08	Role of Members on Outside Bodies	14
11/02/08	Demystifying Principles of Common Good	10
28/02/08	Community Planning	11
20/02/08	Race Inequality Issues	10
03/04/08	Partnership Working	12
15/05/08	Corporate Governance	10
26/05/08	Health & Safety	10

Source: Inverclyde Council

outcomes contained in the SOA and the corporate and community plans. Outstanding actions identified by the council's best value audit position statement at 30 June 2008 have also been incorporated in the latest corporate performance report.

47. The reports are structured around key corporate initiatives including:

- the organisational improvement plan
- corporate plan, with links to directorate and financial plans
- community planning
- Single Outcome Agreement
- decision-making structures and member support

- school estate strategy
- asset management
- modernisation and efficiency programme
- communications framework
- community health partnership
- Riverside Inverclyde
- single status
- workforce development.

48. The council has adopted a 'traffic light system' to highlight whether initiatives and associated performance measures are on target or subject to delays which require corrective action. Reports are SMART: identifying for each initiative the responsible corporate director and senior officer, key milestones, risks, summary status, improvement action and overall analysis. The council is procuring an electronic corporate performance management system to help measure performance systematically across the council.

49. Reports equip members and officers with information to scrutinise performance and provide intelligence to inform policy decisions and future action. Directorate performance reporting has also been established. Reports are submitted to the appropriate committees on a regular basis and performance is measured against key performance indicators. The format of reporting adopted across the council encourages consistency, comparability and accountability. Members have commented positively and indicated that reports had helped them to fulfil their scrutiny role more effectively.

50. The current approach needs to be further developed to provide better information on front-line service performance and performance information which links corporate initiatives to service improvement, customer experience and the outcomes identified in the SOA.

Managing resources

The council is developing resource strategies aligned to the strategic planning and performance management framework. Financial planning, risk management and asset management have progressed well, but more work is required to develop strategic workforce planning.

51. Issues relating to the financial strategy are regularly reported to the Policy and Resources Committee. At the time of our audit the latest report highlighted pressures from pay awards, pensions and utility costs. The council recognises the financial pressures ahead. The £80 million PPP project to build four new schools has been slightly delayed because of funding difficulties arising from current global financial pressures, however, the contract has now been signed. Financing costs have increased and the settlement was within the affordability level previously set by the council.

52. Progress has been made in implementing a risk management framework. Corporate, directorate and service risk registers have been compiled and reports are presented to committees regularly. The council is looking at ways of overseeing all of the risks identified within the registers to provide direction in managing overall risk.

53. The council expects to start implementing strategies covering procurement, community engagement and an organisational improvement plan by December 2008.

54. Our previous audit highlighted the need to develop asset management and workforce planning arrangements. The council has reviewed its asset management arrangements and a new asset management system has recently been procured. Capital planning arrangements have also improved and an officers group has been set up to oversee asset management activity. An

asset management plan remains outstanding. The council expects to produce a finalised plan by April 2009.

55. The council has made only limited progress in developing a comprehensive human resources strategy and workforce plan. Corporate and service risk registers have highlighted that sufficient capacity will be critical in meeting customer demands and recruitment in some areas has been difficult, for example, legal and accountancy staff. The council reassessed the timescale for completing a workforce plan to April 2009 as a result of pressures relating to single status and effort and momentum in this area needs to be increased.

56. Some progress has been made in developing a corporate option appraisal system. The council has no corporate approach to programme/project managements. A corporate approach would enhance transparency in decision-making processes and provide a mechanism for monitoring, controlling and reviewing projects across the council in a consistent manner. Internal audit have recently conducted a review of this area and improvement actions have been agreed. The corporate director of regeneration and resources has been tasked with ensuring that the recommendations are implemented by March 2009.

Trading activities

The council has made limited progress in reviewing its trading activities to demonstrate value for money and competitiveness.

57. In its findings on the first Best Value Audit report the Accounts Commission highlighted the need to carry out a thorough review of the council's trading operations. Since then the council has made limited progress. Considerable time was invested in preparing the Building Services DLO for transfer to River Clyde Homes coupled to new working arrangements for the retained unit.

58. Two of the three significant trading operations (STOs) achieved the required break-even position in 2007/08. However, the vehicle management trading account did not achieve the required break-even position over a three-year rolling period, reporting a deficit of £10,000.

59. The council's internal audit team conducted a limited review of STOs and reported their findings to the CMT in June 2008. The report highlighted a number of weaknesses around the identification and management of trading operations. However, a full review to ensure competitiveness and value for money through the use of trading activities has yet to be undertaken as planned. The council has now initiated a fundamental review of statutory trading operations, which is being led by the chief executive and is due for completion by 30 April 2009.

Service performance

Service performance is improving. Education and social work services continue to perform well. The statutory performance indicators (SPIs) show an overall improvement. The council needs to ensure that its modernisation programme continues to help improve service delivery.

60. This assessment of service performance is largely based on published information in the form of SPIs and the reports published by other scrutiny bodies. These do not give a comprehensive picture of performance across all services, but they allow some comparisons to be made between councils and over time.

61. SPIs show an improvement overall, between 2005/06 and 2007/08. In 2007/08, the proportion of indicators in the upper quartile of all Scottish authorities was 23 per cent (compared to 17 per cent in 2005/06) and there was a lower proportion of indicators in the bottom quartile (27 per cent in 2007/08 compared to 33 per cent in 2005/06) ([Exhibit 4](#)).

62. Between 2005/06 and 2007/08, the council's performance improved by five per cent or more on 29 SPI measures and worsened by five per cent or more on 14 (Exhibit 5). This gives the council an improvement-to-decline ratio of 2.07, which is above the national average of 1.7.

63. Six SPIs which were in the bottom quartile in 2005/06 had still not improved by at least five per cent, by 2007/08.

64. The education service continues to perform strongly, education attainment levels are improving and a number of positive school reports have been published in 2007 by Her Majesty's Inspectorate of Education (HMIE). In addition, the council is progressing a recently agreed School Estate Management Plan to further improve pupils' experience, education and environment.

65. Inverclyde has had high levels of young people 'not in education, employment or training (NEET)'. Since 2003, levels have continued to decrease and Inverclyde was rated as the fifth lowest in Scotland in 2007. Through partnership working with the local enterprise agencies, Careers Scotland, the NHS and James Watt College significant improvements have been made in this area.

66. The council has developed a unique learning project 'The Recruit' to support pupils from local schools to secure trainee management positions within private companies and the council. Seven positions have been awarded to date and the project received a Bronze Award at the 2007 COSLA Excellence Awards.

67. The Social Work Inspection Agency (SWIA) carried out a follow-up inspection in November 2007 following a full performance inspection in 2006 (Exhibit 6). The follow-up visit, in November 2007, found that nine of the 16 recommendations had been fully implemented and progress noted in the remaining seven.

Exhibit 4

SPI Profiles: Proportion of indicators in quartiles 1 and 4

	Quartile 1		Quartile 4	
	No. of indicators	% *	No. of indicators	% *
2005/06	13	17	25	33
2007/08	16	23	19	27

Note: * Indicators which were classed as unreliable, where no service was provided or which failed to report are excluded from this calculation.

Source: Audit Scotland

Exhibit 5

SPI Profiles: Performance change between 2005/06 - 2007/08

	Measures that worsened by			Measures that improved by		
	> 15%	10-14%	5-9%	5-9%	10-14%	>15%
Scotland	10	3	4	6	5	18
Inverclyde	9	1	4	7	3	19

Source: Audit Scotland

Exhibit 6

SWIA Inspection Report

It was clear to us at our follow-up inspection that the new corporate management team gave significant leadership to social work services. All of the staff at the focus group agreed that corporate support and leadership for social work services had greatly improved. All of the looked after and accommodated children we saw had met the council's chief executive and the corporate director of education and social work. The young people were very positive about their contact with these senior managers.

Inverclyde Council has made good progress implementing the 16 recommendations in our performance inspection report. We were particularly impressed with their progress on:

- developing a performance management system
- taking forward corporate parenting
- implementation of their staff appraisal system.

Source: Performance Inspection Summary Progress Report Inverclyde Council 2007, Social Work Inspection Agency, February 2007

68. The report recommended further improvement in the following areas:

- managing and monitoring the performance of services
- developing a commissioning strategy
- developing a risk register specific to social work
- performance in relation to direct payments
- carers' assessments
- the educational attainment of looked after children.

69. Social work services has devised an action plan to respond to the inspection recommendations.

70. Audit Scotland's report on Housing and Council Tax Benefit Services in Inverclyde Council highlights good practice in a number of areas ([Exhibit 7](#)). The council has subsequently prepared an action plan to address the risks identified and these actions should be completed by January 2009.

71. In 2007, the council transferred ownership of its entire housing stock to River Clyde Homes and Cloch Housing Association. The council no longer has responsibility for direct housing management but does retain responsibility for some areas such as homelessness services. The housing regulator's inspection of the homelessness service, issued in August 2008, graded Inverclyde 'C-Fair'. While an improvement from the previous inspection was noted, further improvement is required. The council is preparing an action plan to address the weaknesses identified.

Exhibit 7

Audit of housing and council tax benefit – risk assessment report

Inverclyde Council demonstrates an awareness of what constitutes an effective, efficient and secure benefits service. Its claims processing performance has improved considerably since 2006/07 and new claims and changes of circumstances are now being processed in an average of 24 days and eight days respectively.

A strong counter-fraud performance in 2007/08 resulted in a 284 per cent increase in the number of sanctions administered, and the council received very positive comments in the 2006/07 National Fraud Initiative report.

In addition, the council is currently carrying out an independent customer service review and investing in new IT systems to deliver further improvements.

The main risks to delivering continuous improvement are the need for:

- a Benefits Performance Management Framework to enable the benefits service to be effectively and efficiently monitored in an open and transparent manner
- a Benefits Service Business Plan setting out the aims and objectives, performance indicators and key deliverables for the service
- the Benefits Control Team Business Plan 2008/09 to be more focused on outcomes
- better use to be made of management information to identify areas for improvement in:
 - appeals and reconsiderations
 - interventions
 - counter-fraud.

Source: Audit Scotland report, June 2008

Inverclyde Council

Progress report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs.

You can also download this document at:
www.audit-scotland.gov.uk



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T: 0845 146 1010 F: 0845 146 1009
www.audit-scotland.gov.uk

ISBN 978 1 906752 27 9

Printed on Revive 100 Uncoated, a recycled grade, containing 100% post consumer waste and manufactured at a mill accredited with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

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10 February 2009

Mr Paul Wallace
Corporate Director:
Improvement and Performance
Inverclyde Council
Municipal Buildings
GREENOCK
PA15 1LY

Dear Paul

Annual Audit Plan 2008/09

Further to our recent meeting and comments received on Friday 6 February I now enclose the final version of our annual audit plan.

If you need clarification on any of the attached matters please do not hesitate to contact me.

Yours sincerely



Elaine Boyd
Senior Audit Manager

Enc

cc John Mundell, Chief Executive
Alan Puckrin, Chief Financial Officer
Andi Priestman, Chief Internal Auditor
Gillian Battison, Audit Scotland

Inverclyde Council

Annual Audit Plan 2008/2009

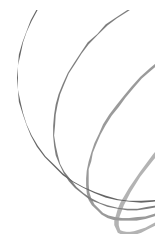


January 2009



Inverclyde Council

Annual Audit Plan 2008/2009



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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing Inverclyde Council, our planned work in 2008/2009 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they present a true and view of the financial position of the council as at 31 March 2009 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2008 SORP.
- reporting the findings of our audit risk assessment process in a strategic audit risk analysis, highlighting the key risks being faced by the council, the action under way or planned in response to these and the work we plan to undertake in relation to these. Our risk assessment work is informed by the priorities and risks framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation
- a review and assessment of the council's governance and performance arrangements in a number of key areas including: internal audit, key financial systems, ICT, statutory performance indicators, best value follow-up work, prevention and detection of fraud (including National Fraud Initiative), and the statement on the system of internal financial control
- provision of an opinion on a number of grant claims and returns, including the Whole of Government Accounts package.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council, and sets out the audit work that we propose to undertake in 2008/09 to address these. Our annual audit plan reflects:
 - the risks and priorities facing the council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.



2. In addition to this annual audit plan, the first audit report of the year we will prepare is a strategic audit risk analysis which will focus on the key performance risks being faced by the council, along with other governance risks highlighted through our work. The analysis will identify the action under way or planned in response to these risks, and the work we plan to undertake in relation to these. This risk assessment work is informed by the priorities and risks framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the council:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which present fairly the financial position at 31 March 2009 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2008 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

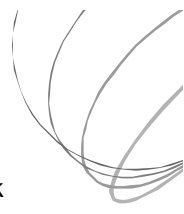


Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2008/2009 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of un-audited accounts to agreed timescales with a comprehensive working papers package
 - management representations on key areas of the financial statements
 - completion of the internal audit programme for 2008/2009.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.



9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
10. At the completion of the audit we will provide the council with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the council and the Chief Financial Officer as Section 95 Officer to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which present fairly the financial position of the council as at 31 March 2009 and its expenditure and income for the year then ended
 - preparing an explanatory foreword
 - reviewing the main components of the system of internal financial control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process.

Format of the accounts

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. The legislative authority is contained in the Government Resources and Accounts Act 2000, which set out a formal designation process. The Act is not applicable in Scotland, but the Scottish Government has put in place parallel mechanisms similar to those that apply in England and Wales. These mechanisms require the council to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

14. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our strategic audit risk analysis will provide a broader analysis of wider risks and issues

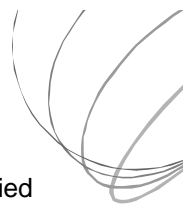


the council faces, setting out our planned work in relation to performance and other governance issues in more detail.

15. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the main financial statements risk areas for your organisation.

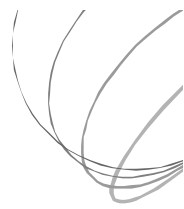
Financial management

16. The downturn in the economy and the council tax freeze has increased the financial pressure on the council. Specific areas of pressure for the council include:
 - increased utility costs
 - single status ongoing costs
 - pay awards
 - pensions
 - inflation
 - landfill taxes
 - reductions in investment income
 - additional service cost pressures including residential schools and additional support needs placements
 - ringfencing of Fairer Scotland Funding will end on 31 March 2010 and the funding will be consolidated into the overall Grant Aided Expenditure
 - agreeing the resource transfer with NHS partners.
17. Furthermore the decline in property values has had a detrimental impact on the council's ability to support the capital programme via income generated by capital receipts.
18. The council's budget report, reviewed by full council in February 2008, identified a revenue funding gap of £7.2 million over the two year period 2009/2010 and 2010/11 with subsequent economic events increasing this gap to £9.5 million. In November 2008 the Policy & Resources Committee agreed to implement a number of identified saving opportunities which reduced this gap to £7.4 million. The council's financial strategy was amended in November 2008 to reflect this and it will be further reviewed following the approval of the 2009/2011 budget in February 2009.
19. The council approved a financial strategy in April 2008 which provides a framework defining how the council will structure and manage its financial resources in the medium to long term. The strategy is reviewed regularly and a report is presented to the Policy & Resources committee every six months which identifies any amendments to the strategy to take account of any significant policy or financial



developments. The strategy was last revised in November 2008 and a further review is to be carried out following the approval of the 2009/2011 budget in February 2009.

20. As at November 2008 the 2008/09 revenue budget is projected to have an under spend of £1.6 million. The general fund reserve had a projected year end balance of £8.96 million, which is £4.96 million in excess of the recommended minimum level of reserves. The majority of this excess was a direct consequence of income of £3.0 million from the settlement of a legal case in 2007/08.
21. The council fully implemented single status in August 2008. The past costs for this during 2007/08 were set aside in an earmarked balance of £1.652 million, however continuing costs to the council will have to be met from revenue and will place a further strain on budgets in future years. This has been factored in to the council's base budgets for 2009/10 and 2010/11.
22. The General Fund Revenue Budget report (submitted to the Policy & Resources Committee on a bi-monthly basis) formally reports to members the forecast year-end position on the general fund. In an external audit report on budgetary control (issued in September 2007) we raised concern about the format of this report and the failure to report actual expenditure. The council have implemented a procedure whereby actual expenditure is reported in all cases where the outturn is projected to show a variance against budget in excess of £10,000. The council have decided to accept the residual risk and propose to take no further action. In light of the increased financial pressure the council are operating under we are still of the opinion that committee reports should report actual expenditure variances as well as the forecast year-end position.
23. The 2007/2008 final audit report to members highlighted a considerable improvement in the delivery of the council's capital programme, with 94% of planned expenditure for the year having been realised. The equivalent figure in 2006/2007 was only 54%. The capital programme report submitted to the Policy & Resources Committee on a bi-monthly basis provides an update on the status of the three year capital programme (2008-2011). As at November 2008 there was a projected slippage in the capital programme for 2008/09 of 9.5%.
24. The council report on the Schools Estate Capital Programme separately. This programme is reviewed on a six monthly basis and as at November 2008 the 2008/09 spend was £10.7 million which represents 71% of the projected 2008/09 spend. At this time there is no projected slippage over the three year period 2008-2011.
25. It is noted that both the school estate and non school estate capital programme are partially based on projected levels of capital receipts. The schools estate programme is based on the achievement of £27.9 million of identified capital receipts with a further £1.0 million per year of unidentified receipts whilst the non schools estate capital programme 2008/13 is based on the achievement of £4.0 million of capital receipts. The current market conditions mean that sale of assets on the open market will be difficult. The council have reviewed the impact of this as part of the budget setting process and



proposals to revise the 2009/13 Capital Programme, School Estate Funding Model and Reserves Strategy are to be considered by the council.

26. The vehicle management trading operation did not achieve its statutory financial target to break-even over the three year period to 31 March 2008.
27. The council's financial strategy recognises that a key challenge for the Inverclyde Alliance and public services in Inverclyde over the next five years will be to better align available resources, across all agencies, to the outcomes identified in the Single Outcome Agreement and Community Plan.
28. The council have drafted a corporate procurement strategy which is scheduled for approval in April 2009. Until such time as the strategy is approved and properly embedded there is a risk that the council are not achieving value for money through current procurement practices.

Accounts presentation and disclosure

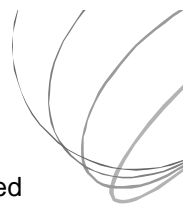
29. The 2008 Statement of Recommended Practice (SORP) provides clarification on a number of accounting changes made over recent years. The key areas for noting are:
 - The 2007 SORP stated that specialised operational properties should be valued on the basis of depreciated replacement cost (DRC) however the 2008 SORP qualifies this by stating that DRC should only be used where there is insufficient market-based evidence of the existing use value (EUV); otherwise the EUV basis should be used.
 - Guidance notes to the SORP in previous years have recommended the practice of revaluing the carrying amount of assets to equal disposal proceeds. This has the effect of hiding gains/losses on disposal. The 2008 SORP has been amended to state that the revaluation of fixed assets at the point of disposal is not permitted.
 - There are significant changes to reflect amendments made to FRS 17 Retirement benefits to align its disclosure requirements more closely with those of IAS 19 Employee benefits.
 - SORP paragraphs 3.52 to 3.57, relating to landfill allowances trading schemes (LATS), apply to Scottish authorities for the first time in 2008/09. LATS give rise to an asset in respect of the allowances held, grant income and a liability for the actual landfill usage. The asset needs to be initially recognised at fair value with authorities then adopting a 'lower of cost and net realisable value' accounting policy for remeasuring the value of landfill allowances after initial recognition. The grant income should be accounted for under SSAP 4 Accounting for government grants and the liability recognised under FRS 12.
30. The prior year audit of financial statements also highlighted a number of matters to be addressed this year. These matters include:
 - **Equal pay costs and single status costs:** actual and potential claims in relation to equal pay legislation have been reviewed and £0.964 million recognised as a provision. While there



remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach. The council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. Similarly, a specific earmarked balance of £1.652 million was set aside to cover costs incurred for single status prior to the implementation date of 18 August 2008. The Chief Financial Officer has provided formal representation that this is the best estimate of the likely liability for equal pay and, for single status, the earmarked reserve will fund past costs, and costs from 18 August onwards will be provided from general revenue funding.

- **Greenock Cut:** there has been a change of accounting treatment agreed. A sum of £0.370 million had previously been awarded to the council (included in the overall creditors balance) by Scottish Water to maintain infrastructure. It was agreed that these monies should be recognised as an earmarked balance held by the council in its general fund reserve. A proposal to establish a 'Renewal and Repair Fund' was agreed by the Policy & Resources Committee in February 2009.
- **Clyde Muirshiel Park assets:** there was discussion regarding the correct accounting treatment of a number of assets managed by the Park Joint Committee but whose title is owned by Inverclyde or neighbouring councils. It was agreed that while there was a need for consistency in the treatment between the three councils involved and the Committee, Inverclyde had two assets on its balance sheet which were not physically located in Inverclyde and subsequently they have been removed in an adjustment to the accounts. The assets removed related to the Clyde Muirshiel Park Visitor Centre and Castle Semple (asset register total £0.720 million). The council are discussing general principles on consistent accounting treatment across the three authorities and the joint committee in advance of preparing the 2008/09 financial statements.
- **Creditors Records:** there were several issues identified which the council has agreed to review for next year:
 - there was a difference of £0.033 million between the creditors balance on the ledger and the aged creditors breakdown of balances. It appears that the aged creditors balance was not produced from the financial systems at the same time as the year end ledger print. We were advised that it is not possible to create these reports retrospectively
 - at the end of the financial year a process was undertaken to match invoices registered but not allocated to services. The balance at 31 March was £1.201 million. The majority of the outstanding batches had been matched, however there is a difference of £0.041 million. Further work is being undertaken to reconcile this difference. Although this did not lead to any adjustments to the financial ledger the matching exercise needs to reconcile on a regular basis throughout the financial year.

Council officers are in the process of producing backup from the creditors system to match creditor invoices to services.



- **Council Tax and Non-domestic Rates Credit Balances:** there were several issues identified which the council has agreed to review for next year:
 - working papers were requested to outline creditor balances in the council tax and non-domestic rates accounts. These were not provided and auditors subsequently obtained schedules directly from staff which showed year-end credits totalling £0.673 million and £0.118 million respectively. These balances were netted off against the gross year-end debtors balances as part of the year-end debtors figure, however this is not considered to be the most appropriate accounting treatment. A satisfactory explanation for these credit balances could not be obtained and as a consequence the balance sheet has not been adjusted. The balances need to be examined to determine the most appropriate accounting treatment in future years
 - The council currently calculates its bad debt provision on the debtor figure in the balance sheet. Consequently, the off-setting of the credit balances means the bad debt provisions are calculated on the net instead of gross debtor balances for council tax and non-domestic rates. The impact is that both bad debt provisions are likely to be understated, however quantification of this will not be possible until the balances are reviewed.

Council officers are to review processes for managing and controlling the credit balances and reconsider the arrangements for bad debt provision.

- **Common Good title deeds checks:** the ISA260 letter for 2006/07 identified that the council should consider completing an exercise to establish where all of its heritable properties are, who holds title to them and what the value is. CIPFA/LASAAC guidance recommends that councils review asset title deeds to ensure that common good assets are correctly classified. The council is working towards implementing this exercise by 31 March 2010 with funding of £78,000 (split over 2009/10 and 2010/11) to resource the coordination and completion of this exercise, approved by Policy & Resources Committee in November 2008.

31. Matters arising from our audit of the 2007/08 financial statements were reported through a combination of the final audit report to members (issued in late October 2008) and also in the ISA 260 letter (issued to the Audit Committee on 23 September 2008). The 2007/2008 ISA 260 letter should be reviewed as part of the financial statements preparation process for 2008/2009 to ensure that all issues are addressed.

Audit committee arrangements

32. The audit committee's remit includes a requirement to oversee the performance of internal audit. The committee meets on a bi-monthly basis (although it also has special meetings for issues such as the issue of the ISA 260 letter). At each of the scheduled meetings a report is provided updating members on the progress made by internal audit (in terms of completion of reviews and the issue of reports). A summary of internal audit reports are included as part of the papers for these meetings however full reports are freely available to committee members on request. During our review of internal audit in



November 2008 the Chief Internal Auditor expressed an opinion that the 2008/09 internal audit plan remained on target for delivery.

33. All reports prepared by external audit are submitted to the committee. Internal Audit have recently developed a procedure to monitor action points from all external audit reports at the point of time when actions are due to be implemented.

Summary assurance plan

34. Within these identified risk areas there is a range of more specific risks and these are summarised at appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

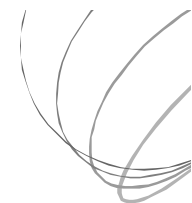
Materiality

35. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
36. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
37. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
38. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.



Reporting arrangements

39. Under the Local Government (Scotland) Act 1973, there is a requirement for un-audited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. A timetable is included at appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.
40. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the nominated senior officer to confirm factual accuracy. In order to minimise the time delay between audit field work and the issue of the final report, responses to draft reports are expected within four weeks of submission.
41. A copy of all agreed final reports will be sent to the Chief Executive, the Chief Financial Officer, responsible Corporate Director or Head of Service, Chief Internal Auditor and Audit Scotland's Public Reporting Group. All formal reports, or a summary thereof, will be made available to the Audit Committee for its consideration.
42. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.
43. All annual reports produced by Audit Scotland are published on our website:
(www.audit-scotland.gov.uk).



44. The full range of outputs to be delivered by the audit team are summarised below.

Planned outputs	Target delivery date
Governance	
Strategic audit risk analysis	31 March 2009
Overview Report Issues	30 September 2009
Review of Main Financial Systems	30 September 2009
Fraud Returns	30 June 2009
Performance	
PRF position statements	31 March 2009
Statutory PIs	31 August 2009
Financial statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	By 30 September 2009 (Audit Committee date TBC)
Independent auditor's report on the financial statements	30 September 2009
Annual report to the Members and the Controller of Audit	31 October 2009
Audit opinion on Whole of Government Accounts	31 October 2009
Grants examples	
Audit opinions on DWP/Scottish Government grant claims	As required

Quality control

45. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Inverclyde Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Peter Tait, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
46. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

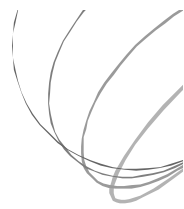
47. Our proposed fee for the 2008/2009 audit of the council is £299,500 comprising a local audit fee of £210,500 and a fixed charge of £89,000. A rebate of £15,400 will be applied to the fee. Our fee covers:



- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit Committee meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
48. In determining the agreed fee we have taken account of the risk exposure of the council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2009. If the draft accounts and papers are late, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
49. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
50. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Inverclyde Council the Assistant Director is Peter Tait.
51. The local audit team will be led by Elaine Boyd who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at appendix C. The core audit team will call on other specialist and support staff, as necessary.

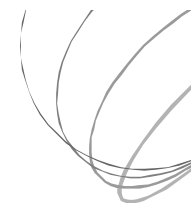
Independence and objectivity

52. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
53. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at appendix E.



Client engagement across Audit Scotland

54. Due to the wider scope of public sector audit, business groups in Audit Scotland other than Audit Services Group, such as Audit Strategy, the Performance Reporting Group and Best Value teams, may have studies ongoing in your organisation in the course of the audit year.
55. The national studies relating to the 2006/07-2008/09 study programme that may be relevant to the council over the next year (with indicative publication dates) include:
- review of expenditure on drugs and alcohol services (March 2009)
 - asset management in councils (April 2009)
 - mental health overview (April 2009)
 - strategic procurement (Spring 2009)
 - review of civil contingencies planning (May/June 2009).
56. The 2009/10 - 2011/12 study programme has now been finalised and the national studies planned that may be relevant to the council in 2008/09 (with indicative start/publication dates) include:
- leisure services (physical recreation) (Started December 2008 / Publication Winter 2009/10)
 - roads maintenance follow-up (Spring/Summer 2009 / Winter 2009/10)
 - looked after children in residential settings (January 2009 / Winter 2009/10)
 - best value and resource management series: topic 1 (Summer 2009 / Spring 2010)
 - managing unit costs (May 2009 / Spring 2010).
57. Further details of the proposed studies can be found on Audit Scotland's website (<http://www.audit-scotland.gov.uk/work/forwardwork.php>)
58. As part of our move to a more streamlined audit process, your Assistant Director for the local audit in their capacity as the Audit Scotland engagement lead will keep you informed of all Audit Scotland planned audit projects at the council. These are in addition to the audit work described in this annual plan.
59. If you have any queries on any planned work by Audit Scotland in any area, please contact Peter Tait or Elaine Boyd who will coordinate a response to your queries with colleagues as appropriate.



Appendix A

Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of the council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

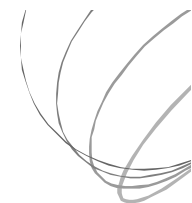
Risk	Source of assurance	Planned audit action
Financial management		
<p>The downturn in the country's economic performance and the council tax freeze has increased the financial pressure on the council. Investment income has decreased whilst the decline in property values has had a detrimental impact on the council's ability to support the capital programme via income generated by capital receipts.</p>	<ul style="list-style-type: none"> ▪ Financial Strategy reviewed 6 monthly (last review Nov08) ▪ Reduced investment returns factored into the 2009/11 budget. ▪ Council has factored a strategy for reduced receipts into 3 year Capital Programme. 	<ul style="list-style-type: none"> ▪ Monitor the council's financial position via the Policy & Resources committee reports and meetings with officers. ▪ Report in the Annual Report to Members.
<p>Income from the 'Fairer Scotland Fund' is ringfenced until March 2010 after which date the funding will be consolidated into the overall Grant Aided Expenditure funding. This poses a potential risk to ongoing service provision in certain priority areas, especially as the council are facing an extended period of financial pressure.</p>	<ul style="list-style-type: none"> ▪ Identified as a key project by the CMT which is to be progressed during 2009/10. ▪ Exit strategies developed for existing Council FSF projects. 	<ul style="list-style-type: none"> ▪ Monitor progress of project via review of Corporate Management Team minutes and subsequent reporting to Committee.
<p>In 2007/08 the council received resource transfer income from NHS partners of £6.0m and, as at January 2009, are budgeting to receive £6.4m in 2008/09. Financial pressures on the health service increase the risk that this £6.4m will not be received in full.</p>	<ul style="list-style-type: none"> ▪ Director of Education & Social Care and Chief Financial Officer monitoring the situation. Social Work in regular contact with colleagues in Heath to ensure resources are transferred. 	<ul style="list-style-type: none"> ▪ Monitor the council's financial position via the Policy & Resources committee reports and meetings with officers.



Risk	Source of assurance	Planned audit action
<p>As at November 2008 the council has identified a revenue funding gap of £7.3m over the two year period 2009/10 and 2010/11. This was reduced from £9.5m through the identification of saving opportunities approved by the Policy & Resources Committee in November 2008.</p>	<ul style="list-style-type: none"> ▪ The Council are carrying out an exercise to identify further sustainable savings which will reduce this funding gap further. ▪ On target to agree a balanced 2009/11 Revenue Budget 12 February, 2009. 	<ul style="list-style-type: none"> ▪ Monitor the council's financial position via the Policy & Resources committee reports and meetings with officers. ▪ Report in the Annual Report to Members.
<p>Careful control and management of trading operations costs and income is required to achieve the statutory breakeven requirement. In the three years to 31 March 2008, the Vehicle Management trading operation failed to achieve this requirement. There is a risk that this reoccurs in 2008/09.</p>	<ul style="list-style-type: none"> ▪ A review of STO's has commenced and is due for completion on April 2009. ▪ Vehicle Efficiency Review due to report to Committee April 2009 which will include amended charging framework. 	<ul style="list-style-type: none"> ▪ Review trading operations financial results. ▪ Report findings in the Annual Report to Members.
<p>The council faces a key challenge to align its financial resources to the outcomes identified in the Single Outcome Agreement and Community Plan.</p>	<ul style="list-style-type: none"> ▪ Workstream included in Organisational Improvement Plan. Links to Financial Strategy development. 	<ul style="list-style-type: none"> ▪ Monitor progress of delivery of Organisational Improvement Plan.
<p>The council's financial strategy recognises the opportunities to make savings via effective procurement. A corporate procurement strategy has been drafted and is scheduled for approval by April 2009. There is a risk the council is not achieving value for money through current procurement practices.</p>	<ul style="list-style-type: none"> ▪ Workstream included in Organisational Improvement Plan. ▪ Council are in discussion with CIPFA and Scotland Excel to develop training for Chief Officers in relation to procurement responsibilities. 	<ul style="list-style-type: none"> ▪ Monitor progress of delivery of Organisational Improvement Plan.
<p>The status of equal pay claims made on the council and exposure to additional claims is influenced by decisions made by employment tribunals.</p>	<ul style="list-style-type: none"> ▪ Reviewed annually as part of Final Accounts preparation. 	<ul style="list-style-type: none"> ▪ Monitor the Council's progress in settling claims. ▪ Review provisions included within the 2008/09 financial statements. ▪ Report in the Annual Report to Members.



Risk	Source of assurance	Planned audit action
Common Good Fund		
<p>The council needs to prepare a common good asset register supported by title deeds to ensure the financial statements account for these assets appropriately.</p>	<ul style="list-style-type: none"> ▪ Post within Legal Services approved by P&R Committee November 2008. ▪ Progress against timeline reported to Audit Committee. 	<ul style="list-style-type: none"> ▪ Monitor the progress via the reports issued to the Audit Committee. ▪ Report in the Annual Report to Members.
Accounts presentation and disclosure		
<p>The council do not take account of the new requirements for the proper presentation of financial statements introduced by the 2008 SORP.</p>	<ul style="list-style-type: none"> ▪ Detailed Final Accounts action plan prepared & reviewed monthly by Finance Manager. 	<ul style="list-style-type: none"> ▪ We will hold early financial statements planning meetings. ▪ We will agree understanding of approach and revisions. ▪ We will assess the manner in which the Council's financial statements reflect the requirements of the 2008 SORP. ▪ Report findings in the Annual Report to Members.



Appendix B

Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	30 June 2009
Provision of closedown procedures to audit	31 March 2009
Meetings with officers to clarify expectations of detailed working papers and financial system reports	by 31 March 2009
Planned committee approval of un-audited financial statements	June 2009
Latest submission of un-audited financial statements with working papers package	30 June 2009
Progress meetings with lead officers on emerging issues	Weekly during audit process
Latest date for final clearance meeting with Chief Financial Officer and Corporate Director: Improvement & Performance.	17 September 2009 (TBC)
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	25 September 2009 (although dependent on AC date)
Audit committee date	September 2009 (TBC)
Independent Auditors Report signed	By 30 September 2009
Latest date for submission of unaudited whole of government accounts return to external audit	3 October 2009
Latest date for signing of WGA return	31 October 2009
Annual report and certified accounts presented to Council	31 October 2009



Appendix C

Audit team

A summarised curriculum vitae for each core team member is set out below:

Lynn Bradley BSc CPFA CA

Director of Audit Services (appointed auditor)

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

Peter Tait CPFA

Assistant Director of Audit Services (certifying auditor)

Peter's career has given him an excellent breadth of experience covering public finance within Scotland, including Local Government, Agencies, Non-Departmental Public Bodies, the NHS and Central Government. With 31 years experience of public sector audit including 18 years at a senior management level, Peter has a strong understanding of the role of the finance function in large public sector organisations and a commitment to achieving best value.

He has assisted public sector bodies with a range of issues including governance, risk management, frameworks of control, financial systems, PFI/PPP schemes, staffing structures, financial reserves, arms length organisations, pension funds, financial planning, capital expenditure schemes, major IT developments and performance management.

Elaine Boyd FCCA

Senior Audit Manager

Elaine has seven years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Elaine spent seven years in a financial management and audit role within the public sector and seven years in private practice.

Laurence Slavin CPFA

Senior Auditor

Laurence has five years experience of public sector audit with Audit Scotland, covering local government, health and education. Prior to this Laurence spent seven years in an IT audit role within the private practice and gained experience both in an audit capacity and as a consultant on large scale IT projects.



David Young
Auditor Trainee

David is a graduate of Glasgow University gaining a degree in economics. He has two years experience of public sector auditing covering local and central government, health and education and has recently joined Audit Scotland as a CIPFA professional trainee.

Jim Cumming
Senior Auditor (ICT)

Jim has eight years experience of public sector ICT audit with Audit Scotland, covering local government, health and the central government sectors. Prior to working for Audit Scotland, Jim spent 15 years in various IT development, quality, security, system administration and project management roles in engineering.

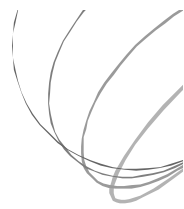


Appendix D

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- Creditors Payments
- Cash and Bank
- Statutory Performance Indicators
- Statement on the System of Internal Financial Control



Appendix E

Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.