Inverclyde council

AGENDA ITEM NO. **6**

Report To: **Audit Committee**		**Date: 24 February 2015**
Report By:	**Chief Financial Officer**	**Report No: FIN/15/15/AP/JB**
Contact Officer:	**Jan Buchanan**	**Contact No**: **01475 712225**
Subject:	**External Audit Committee Update and Audit Plan**	

1.0 PURPOSE

1.1 The purpose of this report is to provide the Audit Committee with an update of activity by the Councils external auditors, Grant Thornton and to present their plan for the 2014/15 audit of the Financial Accounts.

2.0 SUMMARY

2.1 The Councils external auditors, Grant Thornton have been undertaking audit work in several areas over recent months. Some of this work relates specifically to Inverclyde Council whilst other aspects are carried out at a national level.

2.2 Appendix 1 contains an update report by Grant Thornton and breaks the activity down against the following areas:-

a. Developing the Audit Plan;
b. Summary of Audit Scotland reports;
c. Grant Thornton research and publications; and
d. Audit and accounting guidance.

2.3 Appendix 2 contains Grant Thornton's Annual Audit Plan for the 2014/15 annual accounts

2.4 It should also be brought to Committee's attention that Gary Devlin the engagement lead from Grant Thornton has left the firm to take up another position. The Council would like to express their thanks to Gary for his support and guidance during the last 3 years and wish him every success in the future and to welcome Mike Thomas as his replacement. Mike will be in attendance at Committee to address any issues raised in the attached reports.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Audit Committee consider the content of the two Grant Thornton reports and thereafter note the update.

3.2 It is recommended that the Audit Committee note that Mike Thomas will replace Gary Devlin as Engagement Lead for the Council.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 The Council's external auditors Grant Thornton have submitted an update on their progress on delivering their responsibilities as the Council's external auditors and their plan for the audit of the 2014/15 annual accounts.

5.0 FURTHER INFORMATION

5.1 Grant Thornton's progress to date has covered a number of specific areas some of which relate to specific exercises within Inverclyde Council and some which relate to exercises carried out at a national level.

5.2 The update report attached as appendix 1 contains updates in respect of the following areas:-

a. Developing the Audit Plan;
b. Summary of Audit Scotland reports May-December 2014 and the Councils response to the specific reports;
c. Grant Thornton research and publications; and
d. Audit and accounting guidance.

5.3 There are 3 national Audit Scotland Reports highlighted in the report. Community Planning Partners published in November 14 which has been submitted to CMT and CPP Programme Board. The action plan will be presented to the Alliance Board and then Policy and Resources Committee for approval in March 2015.

5.4 The second report is School Education which was published in June 2014 and highlights that Inverclyde has had the second largest drop in school revenue expenditure in real terms between 2010/11 and 2012/13. Figures were taken from the Local Finance Return (LFR) and represent the secondary and primary school expenditure. The movement in the expenditure is due to spend on assisted support needs being included in the figures of 2010/11 as the support was provided through the mainstream schools. This changed during this period and the expenditure is now captured and reported as a separate line within the LFR but not included in the 2012/13 figures.

5.5 The final report is Self Directed Support which was published in June 2014. This report has been progressed through a Steering Group and relevant sub-groups within the service. A progress report will be presented to ICHCP Sub Committee.

5.6 All Audit Scotland National Reports are submitted to the relevant Service Committee with action plans as appropriate and monitored by the Chief Internal Auditor.

5.7 Attached at appendix 2 is the Grant Thornton audit plan for the audit of the 2014/15 annual accounts.

5.8 The Committee is asked to note that there are no specific concerns raised by Grant Thornton in the update report, nor any issues raised in the 2014/15 Audit Plan. Mike Thomas from Grant Thornton will be present at Committee to answer any questions.

6.0 FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising from this report

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 **Legal**

There are no legal implications arising from report.

6.3 **Human Resources**

There are no HR implications arising from this report.

6.4 **Equalities**

There are no equalities implications arising from this report.

6.5 **Repopulation**

There are no repopulation implications arising from this report

7.0 CONSULTATION

7.1 None

8.0 BACKGROUND PAPERS

8.1 None

Appendix 1

Audit Committee Update
Inverclyde Council

January 2015

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and key accounting and auditing developments that may be relevant to the Audit Committee. We outline each section of the report below:

Developing our audit plan

We will present our audit plan to the Committee in February 2015. Our work is focused on updating our understanding of the risks facing the Council, including the impact of prior year issues and the approach to Integrated Health and Social Care. This section of the report provides an update of our progress to date relating to:

- our work with the Local Area Network, in producing the Assurance and Improvement Plan for 2015-16
- the National Fraud Initiative
- the outcome of grants audits.

Our summary of Audit Scotland reports from May to December 2014

During the period, Audit Scotland published three reports in the local government sector as follows:

- Community Planning: Turning ambition into action in November 2014
- School Education in June 2014
- Self Directed Support in June 2014.

Relevant Grant Thornton research and publications from May to December 2014

During the period, we published the following reports:

- A Department of Communities and Local Government Publication, *Good Practice in Local Government Savings*, in December 2014
- Rising to the Challenge, our annual review of local authority financial health, February 2014
- 2020 Vision, a discussion paper on potential future scenarios for local government in England, in October 2014.

Emerging accounting and audit developments

We use this section to provide an update on accounting guidelines that may have an impact on our audit approach, or on the Council's financial statements. This section includes:

- changes to the Local Authority Accounts (Scotland) Regulations 2014, which came into force on 10 October 2014
- accounting for infrastructure assets.

Engagement Lead Change

Mike Thomas will be replacing Gary Devlin as Inverclyde Council's Engagement Lead. Mike's responsibilities will include ensuring the quality of the audit, signing the audit opinion for the Council and certifying grant claims and returns.

Mike is a Director in our Public Sector Assurance team based in Liverpool and is the head of Local Government for the North Region. He has over 20 years experience of auditing local government and certification work on grant funding streams.

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Developing our audit plan

Progress to date

Work	Stage of completion	Issues arising
2014-15 Annual Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	Ongoing	We have commenced our annual planning process, which includes an assessment of the risks facing the Council, changes to accounting requirements and the impact from prior year findings. The draft external audit plan will be presented to the Committee on 24 February 2015.
Assurance and Improvement Plan Each year, we participate in the shared risk assessment and publication of Assurance and Improvement Plan as part of our work on the Local Area Network with other scrutiny partners.	Ongoing	We anticipate that the Assurance and Improvement Plan will be published in April – May 2015. The update reflects recent work carried out by local scrutiny partners, including our external audit in 2014, engagement by Education Scotland, the Scottish Housing Regulator and the Care Inspectorate and national work carried out by Audit Scotland.
National Fraud Initiative In December 2014, we were asked to complete a questionnaire on the progress of Council Tax to Electoral Register matching to Audit Scotland.	A further questionnaire is due for submission in June 2015	We reported to Audit Scotland that both datasets for the 2013-14 Council Tax to Electoral Register matching exercise have not been submitted by the March 14 deadline due to the Council not receiving the request for the data. The data has now been submitted with the issues raised being progressed.

Progress to date continued

Work	Stage of completion	Issues arising
Non-Domestic Rates Grant Audit We are required to examine and report on grant claims and other financial returns to grant-paying bodies by local authorities. One of the approved returns that we must certify is the non-domestic rate income (NDRI).	Complete	We issued an unqualified opinion on the non-domestic rate income (NDRI) return on 15 January 2015.

Audit Scotland Reports
May – December 2014

Community Planning: Turning ambition into action

In November 2014, Audit Scotland published its most recent review of Community Planning arrangements. The report noted significant improvements since *Improving Community Planning in Scotland* was published in March 2013. All Community Planning Partnerships (CPPs) developed new Single Outcome Agreements (SOAs) during summer 2013, based on the Statement of Ambition published by the Scottish Government and CoSLA. We summarise the key findings below:

1

Partners are demonstrating more collective ownership of community planning and participation has improved

The report highlights that there is a strong sense of renewed energy nationally and locally to improving community planning.

Audit Scotland found that aspects of community planning are improving, but that leadership, scrutiny and challenge are still inconsistent. There is little evidence that CPP boards are demonstrating the levels of leadership and challenge set out in the Statement of Ambition.

The practical links between the Scottish Government's public service reform programmes and community planning are not clear. Many CPPs are unsure about what their specific role in these programmes should be, including in the integration of health and social care services.

2

Many CPPs are still not clear about what they are expected to achieve and the added value that can be brought through working in partnership

The report found that although SOAs have improved, many are still not clear about the specific improvements CPPs are aiming to achieve and lack a focus on how community planning will improve outcomes for specific communities. Audit Scotland note in the report that this reflects a wider ambiguity both nationally and locally about the extent to which the focus of community planning should be on local needs or about delivering national priorities.

Most CPPs use data at a CPP level, but Audit Scotland found that the more well-developed SOAs use data at a neighbourhood level. They recommend that CPPs use local data to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

3

The way public services are delivered must change to manage financial and service demand pressures and to address the significant variations in outcomes experienced by different communities

Community planning partners increasingly recognise that they need to work together in different ways to help public bodies deal with these complex long-term challenges.

This approach is generally being pioneered through relatively small-scale projects. Audit Scotland therefore believe the current scale of activity is unlikely to deliver the radical change in the design and delivery of public services called for by the Christie Commission.

4

Performance management continues to be a weakness in CPPs

Audit Scotland found that CPPs need to strengthen their performance management arrangements by routinely gathering information to monitor and report progress in improving outcomes for local communities. This is challenging due to difficulties in identifying appropriate indicators and available data and the different performance management arrangements of partners.

The Scottish Government is not yet consistently holding central government bodies or the NHS to account for their performance within CPPs. There is no coherent national framework for assessing the performance and pace of improvement of CPPs.

As a result, there is no overall picture of how individual CPPs are performing and what progress is being made towards the effective implementation of the Statement of Ambition.

Inverclyde's response

The report has been reviewed by the Corporate Management Team and the CPP Programme board with an action plan agreed which includes presentation of the report to the Alliance Board and Policy and Resources Committee for approval in March 15..

Questions for your CPP to consider:

- Is the CPP a true leadership board, setting an ambitious programme for change?
- Do partners demonstrate collective ownership of priorities within the SOA?
- Are local partnership working arrangements streamlined and aligned with local improvement priorities?
- How will you work with the new health and social care integration joint boards to develop services that meet the needs of local people and support SOA priorities?
- Do you use local data to set relevant, targeted priorities for improvement?

School Education

Education is fundamental in shaping a child's life. Getting a good education improves a child's likelihood of earning a higher income, enjoying better health and a longer life. This report, published in June 2014, noted that an effective school education system is an important factor in supporting the Scottish Government's strategic objectives to be a 'Smarter Scotland' and a 'Wealthier and Fairer Scotland'. School education also accounts for a significant proportion of local government spending, and a number of important education policy developments have taken place in recent years, such as the introduction of Curriculum for Excellence (CfE).

The report includes a self-assessment checklist for councillors to consider key issues affecting education. We summarise the key findings below:

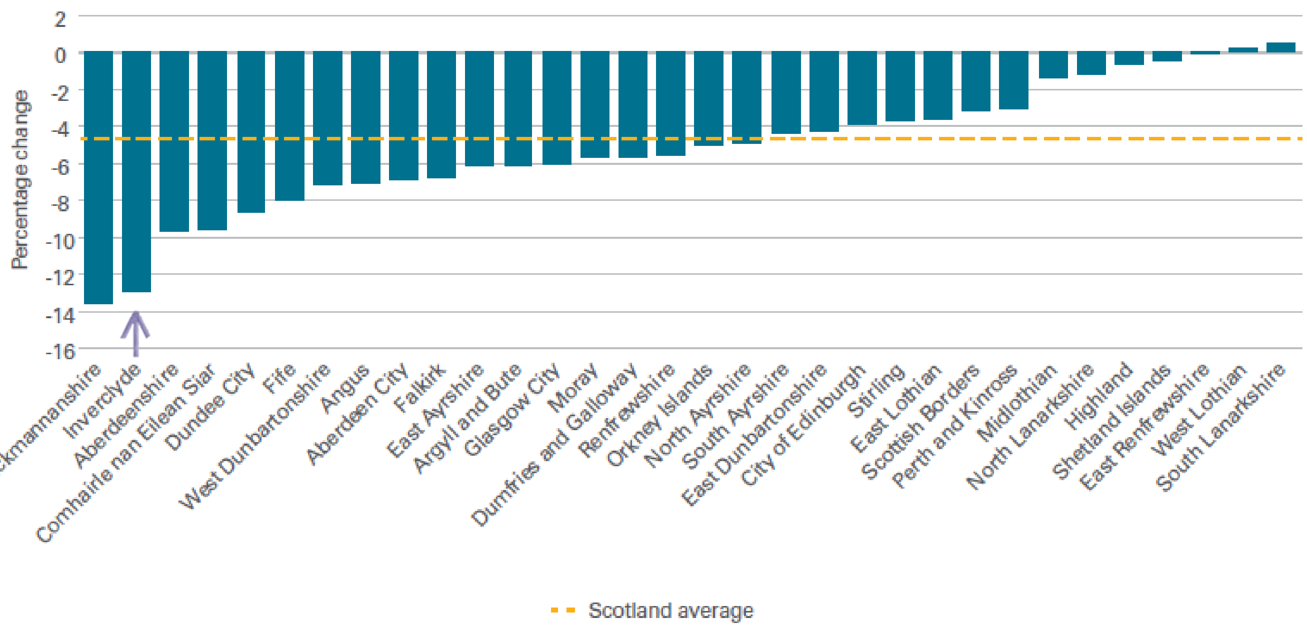
1

Councils' spending on education fell by five per cent in real terms between 2010-11 and 2012-13, largely as a result of employing fewer staff

In 2012-13, Scottish councils spent £4.8 billion on education services, of which £3.8 billion was spent on primary and secondary education. Inverclyde Council spends around £74 million on Education services, that accounts for 30% of net expenditure. Figure 1 highlights that Inverclyde's spend fell by around 13% in the period between 2010-11 and 2012-13, compared to the Scottish average of 4.8%. The reduction is due to a restructure within the Directorate with the costs of Additional Support Needs reallocated and not included in the 2012-13 comparator figure.

Around two-thirds of education expenditure is on staff costs. Inverclyde spent around £5,233 educating each child in 2012-13, just below the Scottish average, at £5,468.

Figure 1: Changes in school revenue expenditure in real terms, 2010-11 to 2012-13



2

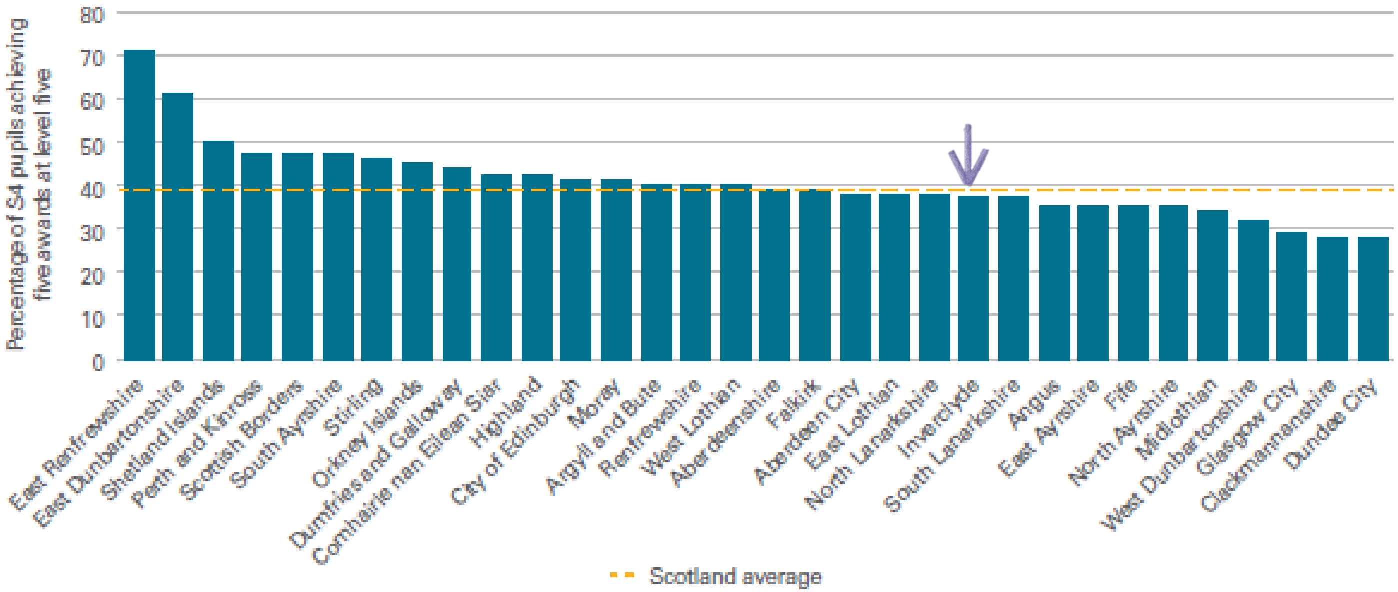
Attainment has improved over the last decade but there is significant variation between councils and pupils

Nationally, attainment has improved across all of the attainment measures that Audit Scotland selected for analysis across the last decade, although the level of improvement has been mixed. The vast majority of the improvements in attainment have been made in the past five years.

The attainment gap between the highest and lowest-performing pupils in secondary education has closed slightly over the past five years. However, there is a disparity between Scotland and top performing countries. International comparisons show that the academic performance of Scotland's pupils in recent years is static, after a period of relative decline.

There are also wide differences in attainment levels between councils in Scotland across almost all of the ten measures used in the report. Figure 2 highlights that Inverclyde's performance in 2013 was in the third quartile for S4 pupils achieving more than 5 awards at level 5.

Figure 2: Percentage of S4 pupils achieving 5 awards at level 5



3

Councils that have made the most improvements have focused on areas such as leadership, improving both teacher quality and the systems for monitoring and tracking pupil data

Deprivation continues to have a large influence on attainment. There are significant differences in attainment between pupils from deprived areas and those from more affluent areas but Audit Scotland note that some schools have achieved better attainment results than their levels of deprivation would indicate. This suggests that the gap between the lowest and highest performing schools cannot be wholly attributed to different levels of deprivation.

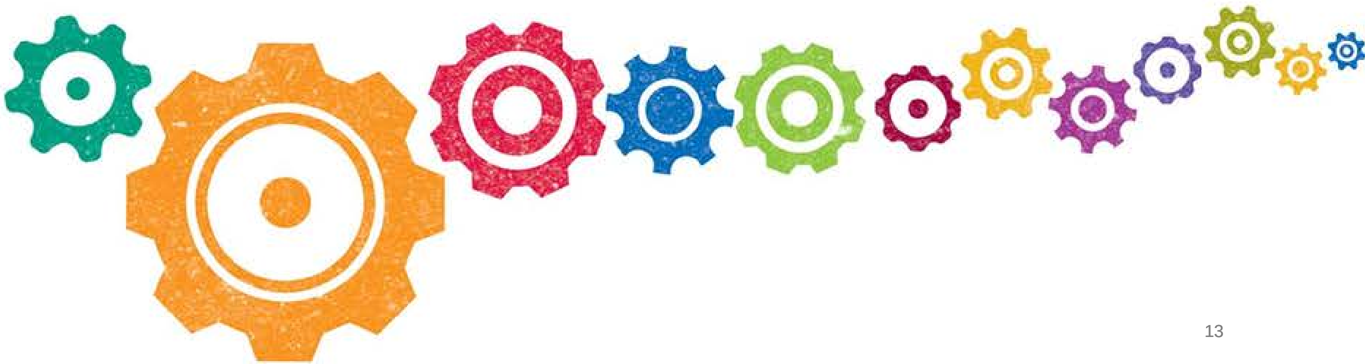
Audit Scotland found that a number of interlinked factors play a role in improving attainment. Aside from deprivation, these include:

- improving teacher quality
- developing leadership
- improving systems for monitoring and tracking pupil data
- increasing parental involvement
- developing pupil motivation and engagement.

Audit Scotland found that strategic planning could be strengthened so that plans better identify the most important priorities for improvement. They also noted that there is scope to strengthen elected members' role in scrutinising and challenging education performance around both attainment and wider achievement. In particular, elected members could do more to challenge attainment performance to improve consistency between schools. They should also scrutinise measures to narrow the gap between the lowest and highest-performing pupils.

Questions for elected members:

- Does the council have a clear education strategy and improvement plan which set out the most important priorities for improvement, specific actions to be taken to raise attainment levels and the intended outcomes for pupils and other stakeholders?
- What is the impact of deprivation on educational attainment within the council?
- What other factors affect pupil performance in the council area and what the council is doing to address these?



Self Directed Support

Self-directed support (SDS) is a major change to the way people with social care needs are supported. SDS is based on the human rights principles of fairness, respect, equality, dignity and autonomy for all. This means that people should be equal partners with relevant professionals in determining their social care needs and controlling how their needs are met. This means that individuals are not limited to choosing from existing services such as day centres, respite care or home care, but may still choose them if that will best meet their needs. As well as changes for people who need support, SDS therefore brings significant challenges for councils and third and private sector social care providers to plan and adapt for individual needs. An action plan has been developed in response to the report which is being progressed via a Steering Group and relevant Sub-groups within the service. Thereafter a progress report will be presented to ICHCP Sub Committee. This report, published in June 2014, examines what progress councils and the Scottish Government have made in implementing SDS. The report includes a self-assessment checklist for councillors to consider the key issues facing the Council. We summarise the key findings below:

1

Councils still have a substantial amount of work to do to fully implement SDS

The SDS strategy is a ten-year strategy, running from 2010 to 2020. The way councils plan and deliver social care is not expected to change immediately and it will be challenging to manage this change. Some people may still want to use services that are no longer financially viable.

Audit Scotland found that in January 2014, the majority of councils had planned for SDS implementation but that not all councils demonstrated a clear commitment to all aspects. For example, some councils' plans did not set out what actions they would take, or by when; some referred to providing information for people, but not seeking their views or contributions to developing SDS and many did not mention joint working with the NHS.

2

Councils have adopted different methods of allocating the money they spend on social care to support individuals

Although SDS is not necessarily about delivering services more cheaply, councils are implementing SDS while managing pressures from declining budgets and increasing demand. Given the scale of the changes involved, there are financial risks to the council involved in moving to this new way of working.

Long-term planning and regular monitoring of social care spending and activity are therefore crucial because of pressures on budgets and demand for services. Councils need to develop scenario planning so that they are prepared for events which could have a significant impact on expenditure, such as an unexpected rise in the number of people asking for a direct payment while money is still committed to paying for existing services.

3

Councils should work more closely with people who need support and with their carers to develop the choices that will improve people's lives

Implementing SDS involves changing the way councils support people with care needs. People may choose new and different types of support that staff have not considered before. This cultural change is at the heart of implementing SDS.

Audit Scotland's review of councils' plans suggests that several have underestimated the scale of the changes required. Staff training has been built into plans but there is less evidence of other areas that matter, including:

- having a clear, shared vision across the whole service
- giving managers and front-line staff opportunities to examine their procedures and contribute to changes
- ensuring leadership from councillors, managers, team leaders and front-line staff.

Grant Thornton research and publications May – December 2014

Good practice in Local Government Savings

In October 2012, the Department for Communities and Local Government (DCLG) commissioned Grant Thornton and Shared Intelligence to conduct research into good practice in how local authorities in England are making savings which do not adversely impact frontline services. DCLG published the findings of the research in December 2014.

The DCLG report, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388519/Good_Practice_in_LG_Savings_-_Final_Report_-_17_Dec.pdf summarises the findings of research into good practice in delivering savings.

An online survey was sent to all local councils and fire & rescue authorities in England. Survey data was collected from 107 authorities. Case studies were selected to:

- provide an understanding of success factors
- establish drivers for action and change
- set out the challenges and inhibitors, and how they have been addressed.

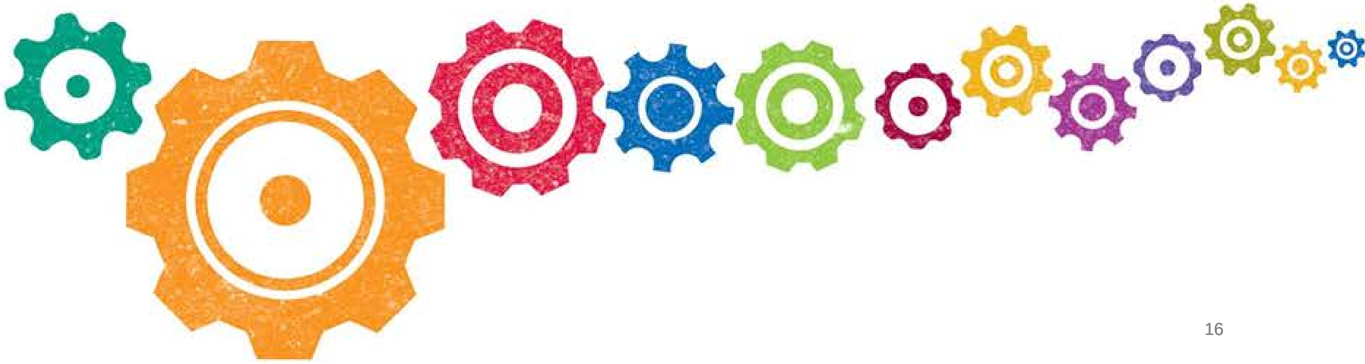
The case studies covered five approaches to securing savings:

- the introduction of new policy goals to improve outcomes and reduce costs
- new models of service delivery with the private and not-for-profit sectors
- the use of new technology
- the role of preventative activity and early intervention
- collaboration between different organisations.

We summarise two of the case studies, from Kirklees and Barnet, on the following page. The research highlighted that councils are increasingly moving away from traditional savings, focussing on a single service or function, towards transformational reform. This generally requires a more collaborative approach and has the potential to deliver better for less.

The research identified five attributes that contribute to the delivery of effective local government savings and efficiency programmes:

1. High-quality, sustained leadership - both political and managerial which is attuned to the particular place and circumstances
2. Close partner engagement - including co-design with local communities and business partners
3. Effective governance and programme management - including clarity about the scope of the project and mechanisms to avoid mission creep
4. Paying attention to culture and ways of working - reflecting the scope and scale of changes which many service redesign programmes require
5. Community responsiveness - including developing and building on the capacity and enthusiasm of the community to meet local needs.



Case Study 1: Summary of Kirklees: 'One Council' approach

Kirklees' 'One Council' approach was designed to secure savings through centralising human resources and business support services and developing a customer-facing contact centre. The programme, which was embarked on in early 2010 was intended to put the council 'ahead of the curve' in responding to the government funding reductions and reflected an understanding that it could not continue to be a 'collection of services run independently'.

A key feature of the approach was an Innovation and Efficiency Programme comprising three strands:

- a reduction in the number of senior managers
- the creation of a single central support unit and the automation of human resources and payroll functions
- a review of back office functions across the council.

The Innovation and Efficiency Programme has delivered £20 million of savings over three years, contributing approximately half of the total savings the council needed to make over this period.

Securing all-party support for the programme was critically important to ensure its sustainability, including full discussion at Council. Good governance and project management, with active member scrutiny, has also been important.

"The One Council approach is getting it right first time for staff and customers." (Elected Member)

Case Study 2: Summary of One Barnet Programme

The outsourcing of Barnet's Customer and Support Group is part of a long-term programme of transformation and cost-reduction at the council. The ambition of this programme was set out in a report on the 'Future Shape' of the council which was agreed by Barnet's cabinet in 2009. A more focused set of propositions – the One Barnet programme - was agreed by the council in 2010.

The council has introduced a commissioning council structure and is pursuing an ambition to become a citizen-centred council with a goal to develop:

- a new relationship with citizens
- a one public sector approach
- a relentless drive for efficiency.

"The scale of change we are seeking is on a par with that between Blockbuster and Netflix, between a high street presence to an on-line service." (Chief Executive)

The main elements of One Barnet are:

- the outsourcing of the Customer and Support Group
- the creation of the Barnet Group, a Local Authority Trading Company, to deliver its housing and some social care services
- the agreement of shared services arrangements, including a joint Director of Public Health and a shared legal service with Harrow
- the creation of a joint venture company to provide developmental and regulatory services.

The council is now focused on its financial position beyond 2015/16 and is carrying out a comprehensive Priorities and Spending Review.

Source: DCLG Best Practice in Local Government Savings, December 2014

Rising to the Challenge: The evolution of local government

Local authorities are navigating austerity well, but significant challenges remain which will continue to drive the evolutionary process.

Introduction

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government in England. It covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

Background

In the wake of the financial crisis and the government spending review, the report looks at how English local authorities have risen to the huge financial challenges they face.

We consider the findings, and their implications for Scottish local authorities.

Our Findings

Our overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy.

Most local authorities have continued to rise to the challenge posed by government funding reductions, supported by an evolution in financial management arrangements over the past four years. However, with austerity challenges facing local government over the medium-term set to continue, authorities must continue to evolve.

Financial governance continues to strengthen, but only 32% of authorities believe that they have managed to improve the financial culture of the organisation successfully.

Case Study 1: London Borough of Sutton

London Borough of Sutton has demonstrated how integrated reporting can improve members' understanding of the whole picture of delivery.

Their Strategy & Resources Committee reviews the financial performance report with integrated KPIs including customer service and workforce information on a quarterly basis.

Members therefore review service performance in the context of the financial envelope and the progress of the major change programmes, including savings delivery against targets. The balanced scorecard includes customer feedback and workforce KPIs in a summarised accessible format.

Case Study 2: Surrey County Council

Surrey County Council has introduced regular all member seminars as part of the MTFP planning process, to keep members informed and engaged in financial monitoring.

The seminars are jointly led by the Director of Finance and the Chief Executive, and allow for detailed discussion of the main financial risks facing the Council in the medium term.

As a result, the interested parties within the Council have a sound understanding of these risks – which at present mainly relate to the erosion of major sources of funding, delivery of the major change programmes and associated efficiencies, delivery of the waste infrastructure and changes to health commissioning.

Surrey is also progressing a cultural shift so that all budget holding managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts upon their service.

Key lessons for Scottish Councils

The report contains a checklist for members and officers. We recommend that councils should consider if their:

- medium- to long-term strategy redefines the role of the authority
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

2020 Vision

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020.

Introduction

Our national report '2020 Vision' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes and suggests several scenarios to facilitate an open debate on the future for the sector.

Background

In the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision considers the likely 2015-16 Spending Round and looks ahead to the life time of the next government.

It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

The report highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions and demographic and technological change.

It highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Future scenarios for local government

So far, local government has continued to deliver and withstand these challenges, but there are growing concerns that the current approach may not ensure the long-term sustainability of some local authorities. The Local Government Association (LGA) anticipates a £14.4 billion shortfall in the funding required in 2019-20 and it estimates that 60% of councils in England will no longer be able to meet the budget challenge through efficiency improvements.

With some kind of reset of the system in England looking increasingly likely, local authorities would do well to grasp control of this for the benefit of their communities and their locality.

To facilitate discussion, we have developed five scenarios (with a sixth arising during our research) to help local government consider where they are now and how they might respond to the changes ahead. Each of the scenarios were tested with council leaders, chief executives and other sector stakeholders and reviewed against international case studies. They are covered in greater detail within the 2020 Vision report.

The five scenarios:

1. Adaptive innovation

Councils creatively redefine their role and are able actively to affect their operating environment, often working in close partnership with other authorities.

2. Running to stand still

Councils are led and managed well and can see a positive future, provided that they can keep up the current pace and that there are no major shocks.

The five scenarios continued

3. Nostril above the waterline

Councils are only able to act with a short-term view, their existence is hand to mouth and even a small external change might seriously challenge their viability.

4. Wither on the vine

Councils have moved from action to reaction. Their finances and capacity are not sufficient to the task and they are retreating into statutory services run at the minimum.

5. Just local administration?

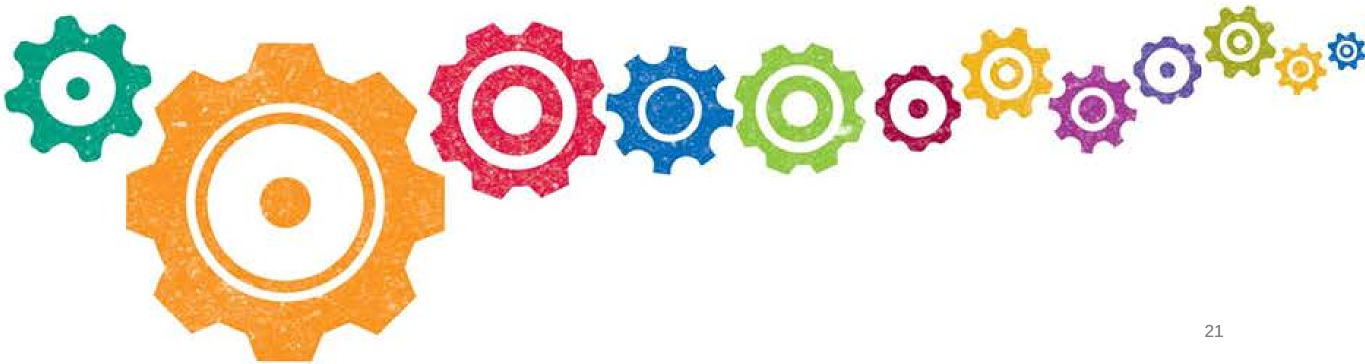
Councils have lost the capacity to deliver services, either because they have 'handed back the keys' or because responsibility for significant services has been taken from them.

A sixth scenario – 'imposed disruption'

During the development of this report, it became clear that there are limitations to the five scenarios, and how much councils can accomplish on their own.

There is an increasing sense that local government in England is already at a decisive point. However, local government's constitutional position and the diversity within the sector is too broad to enable it to take decisive action on its own.

So while the five scenarios have been developed bearing in mind what local government itself can do, significant, externally imposed change has increasingly been part of our conversations.



Accounting and audit guidance

Local Government Regulations

Background

The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. Sections 96 to 104 of the Local Government (Scotland) Act 1973 set out the statutory arrangements for local authority accounts and audit. Section 105 provides Scottish Ministers with power to make provision, by regulations, as necessary or appropriate to ensure section 96 to 104 of the Act have full effect.

Key changes

The abstract of accounts required under the 1973 Act is to be known as the annual accounts, rather than the Statement of Accounts and must comprise the financial statements, a management commentary, a statement of responsibilities prepared in accordance with the Code as adapted by paragraph 5 of finance circular 7/2014, an annual governance statement and a remuneration report.

Unaudited accounts

- Regulation 8(6) requires the proper officer to certify the above by signing and dating the statement of responsibilities and the balance sheet, and then submit the annual accounts to the appointed external auditor no later than 30 June.
- Regulation 8(8) introduces a new requirement to publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.
- Regulation 8(9) introduces a requirement for the authority (or a committee whose remit includes audit or governance, e.g. an audit committee) to consider the unaudited annual accounts at a meeting by 31 August.

Approval of accounts

Regulation 10 sets out the process for the consideration and signing of the audited annual accounts as follows:

- the local authority (or a committee whose remit includes audit or governance) is required to meet to consider whether to approve the audited annual accounts for signature
- in making this consideration, the regulations require elected members to have regard to any report made, or advice provided, on the annual accounts by the proper officer or auditor
- the local authority (or relevant committee) is required to aim to approve the audited annual accounts for signature no later 30 September.

Immediately following approval, the statements which form part of the annual accounts require to be signed and dated as follows:

- the management commentary by the proper officer, the Chief Executive and the Leader of the Council
- the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively
- the annual governance statement by the Chief Executive and the Leader of the Council
- the remuneration report by the Chief Executive and the Leader of the Council
- the balance sheets by the proper officer, to authorise publication of the financial
- statements.

Accounting for Infrastructure Assets

It is expected that the 2016-17 accounting Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets (the transport code) for transport infrastructure assets, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet at 1 April 2015. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action a project plan as soon as possible in order to achieve successful implementation.

A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. Failure by the Council to begin preparations in 2014-15 increases the risk that the necessary information may not be available in the required timescale.

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Appendix 2

The Audit Plan
for Inverclyde Council

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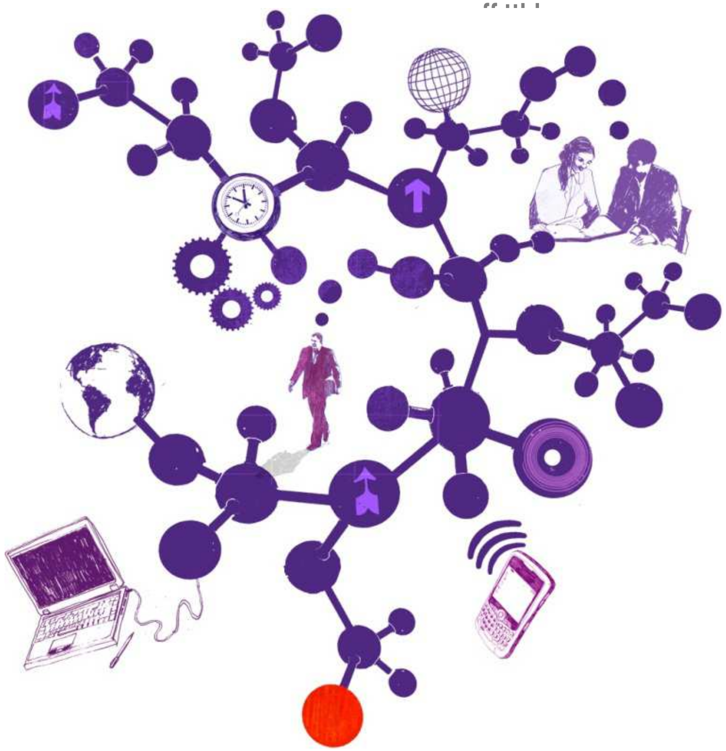
Year ended 31 March 2015

24 February 2015



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Introduction

Introduction

Our annual audit plan is prepared for the benefit of discussion between Grant Thornton UK LLP and Inverclyde Council (the Council).

We are required to conduct our audit in accordance with the Code of Audit Practice (the Code) issued by Audit Scotland. The Code requires our audit to cover aspects of the Council's arrangements for the preparation of financial statements, governance and performance management. Our audit approach is based on an annual integrated assessment of risk across the Code responsibilities.

The Code requires that we undertake our audit in accordance with:

- relevant legislation (The Local Authority Accounts (Scotland) Regulations 2014 issued under section 105 of the Local Government (Scotland) Act 1973)
- statements of Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board
- the CIPFA Code of Practice on Local Authority Accounting
- other guidance issued by Audit Scotland.

This Plan summarises our approach to the audit of the Council for the year ended 31 March 2015 to ensure compliance with the Code and other legislative and audit practice requirements.

Our Audit Strategy

Our key audit objectives are as follows:

- to audit the financial statements of the Council within agreed timescales
- to ensure the Council complies with applicable enactments and regulations
- to consider aspects of performance and governance arrangements
- to produce a concise and constructive report of key issues to the Audit Committee and the Controller of Audit.

The Council's responsibilities

The Council is responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs, and for making available to us all the information and explanations we consider necessary for the purposes of our audit.

Management are responsible for putting proper arrangements in place to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Understanding the Council

In planning our audit we consider the key governance challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges and opportunities

1. Partnership working

- The Council continues to deliver a number of services in partnership with community groups, neighbouring councils, health bodies, the 3rd sector and the private sector.
- The Council works within a successful community planning partnership environment and continues to seek opportunities for partnership working.
- The effectiveness of the council's partnership working arrangements will increasingly come under scrutiny as the council develops plans for potentially sharing operations in some key services, implements the City Deal and the establishment of the new Integrated Joint Board.

2. Leadership

- Leadership capacity during such a significant period of change remains a key challenge for the Council.
- The Council has an established management team that has recently been bolstered by the return of the Corporate Director Environment, Regeneration and Resources from secondment to Riverside Inverclyde.
- Staffing cuts in the last few years may limit the council's corporate capacity to respond to some of the current challenges.

3. Continuing financial pressures

- The Council had significant General Fund reserves of £42.9 million as at 31 March 2014 (the highest of any council in Scotland relative to annual spend). £38 million of these reserves are earmarked.
- These reserves largely reflect the prudent financial management strategy of the Council and provide a significant buffer to enable the Council to plan effectively for projected budgets cuts over the current 3 year planning period.
- The Council has recently recorded underspends against both its capital and revenue budgets there is scope to improve the accuracy of budget forecasting, management and reporting.

4. Maintaining service performance

- The Council generally performs well across a range of services it provides, with Children's Services in particular, performing well.
- We reported in our Annual Report to Members that 52% of performance indicators (24650) lie in the first and second quartiles when compared to other councils (see page 15 for further details).
- Environmental Services, Corporate Services, and Culture and Leisure Services all record performance levels generally in the lower performance quartiles.
- Inverclyde, like all other public bodies, continues to face a challenge to maintain service levels with fewer resources.

Our response

1. Partnership working

- We will review the Council's Community Planning Partnership, drawing on Audit Scotland's findings within the CPP audit programme.
- We will review how governance arrangements for the Glasgow City Region City Deal are progressing.
- We will continue to monitor the Council's arrangements for the implementation of integrated health and social care, under the Public Bodies (Joint Working) (Scotland) Bill.

2. Leadership

- We will continue to review leadership capacity and effectiveness as part of our governance and performance responsibilities.
- We will review the arrangements put in place by the Council to support the corporate management structure.

3. Continuing financial pressures

- We will review a sample of earmarked reserves to confirm that approval was appropriately sought and plans are in place to utilise the reserve.
- We will continue to monitor progress in delivering business transformation and efficiency projects to meet budget challenges.
- We will review the financial strategy to ensure that assumptions are realistic and that the strategy is underpinned by robust plans.

4. Maintaining service performance

- We will continue to monitor progress in delivering business transformation and efficiency projects to meet budget challenges.
- We will continue to assess the effectiveness of the Council's performance management systems.
- We will monitor the Council's progress in improving service performance in areas identified as requiring improvement.

Developments relevant to the Council and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1.Financial reporting

- The CIPFA Code of Practice on Local Authority Accounting has been updated for changes in 2014-15. The most significant change relates to the adoption of new group accounting standards (IFRS 10, 11 and 12).
- A ruling from the Employment Appeal Tribunal states that holiday pay should include overtime in their calculations of holiday pay owed to employees.
- The CIPFA Code will be updated in 2016-17 to adopt the requirements of the *Code of practice on transport infrastructure assets*. This is likely to have a significant impact on the value of local authority balance sheets and will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement.

2. Legislation

The Local Authority Accounts (Scotland) Regulation Act 2014 applies to the financial reporting period 2014-15. There are a number of significant implications arising from the Act. The most significant are:

- The regulations require the Annual Accounts of the Council to include a Management Commentary in line with the HMT Financial Reporting Manual
- There are changes to the requirements for publishing the unaudited and audited financial statements including a revised timetable
- Those charged with governance are required to meet by 30 September to consider approval of the audited annual accounts. The accounts are required to be signed immediately after approval

3. Health and Social Care Integration

- The Public Bodies (Joint Working) (Scotland) Act 2014 puts in place a framework for integrating health and social care . The Act requires the Council to jointly prepare an integration scheme setting out the model which is being adopted.
- Integration schemes must be submitted to Scottish Ministers by 1 April 2015 with arrangements in place by April 2016.
- The Council approved the decision to pursue the body corporate model of governance with the creation of the Inverclyde Integrated Joint Board with Greater Glasgow and Clyde Health Board.
- This will require the establishment of an Integrated Joint Board prior to April 2016.

4. Other requirements

- The Council completes grant claims and returns on which audit certification is required
- The Council submits a Whole of Government Accounts pack each year. In 2013-14 the Council were marginally below the audit threshold.
- Preparation of performance indicators under the new SOLACE Benchmarking indicator regime

Our response

1. Financial reporting

We will ensure that:

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly
- the Council consider a provision for overtime claims where appropriate
- the Council consider inclusion of overtime within the holiday pay accrual
- the Council are prepared for the changes with regard to infrastructure assets.

2. Legislation

- We will provide guidance to the Council outlining the requirements of the Government Financial Reporting Manual with regard to Management Commentary. We will review the new disclosures in the financial statements to ensure compliance.
- We will work with the Council to ensure the accounting and audit timescales in place comply with the revised requirements of the Act.

3. Health and Social Care Integration

- We will monitor progress towards integration.
- We will review and comment on financial plans associated with integration.
- We will review and comment on the proposed governance arrangements for the Integrated Joint Board.

4. Other requirements

- We will certify grant claims and returns in accordance with Accounts Commission requirements.
- We will review the Whole of Government Accounts guidance in the current year to establish the threshold. If the group accounts of the Council exceed this threshold we will conduct a full audit in line with the Scottish Government guidance.
- Working with internal audit, we will assess the Council's systems and processes for collecting and correctly reporting performance data.

Financial Statements

Introduction

Local Authority financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and it's expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement has been prepared in accordance with relevant requirements and to report if it does not meet these requirement, or if the statement is misleading or inconsistent with our knowledge.

Materiality

Under ISA 320 the auditor is required to establish both an overall materiality and a performance materiality. Materiality is an auditing and accounting concept relating to the importance or significance of an amount, transaction or discrepancy in respect of an entity's financial accounts.

Overall materiality is set for the financial statements as a whole and is based on our perception of the financial needs of users.

This is informed by the level of public scrutiny, key performance indicators used by management, management's view on materiality and specific risks identified to the firm. An item would be considered material to the financial statements if, through omission or non-disclosure, the financial statements would no longer show a true and fair view. The assessment of what is material is a matter of professional judgement.

As the primary focus of Inverclyde Council is to provide services to the community through use of public funds we therefore consider gross cost of services to be the most appropriate benchmark for our overall materiality. In 2014-15 we have conducted a risk assessment and established planning materiality at 2% of 2013-14 gross cost of services. This means that cumulative unadjusted misstatements above £4.823 million would result in an adverse audit opinion.

Performance materiality as defined by ISA 320 is the amount set by the auditor, at less than materiality, for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Performance materiality is the maximum amount of a misstatement that the auditor can accept in an individual account. We would therefore expect any individual misstatement detected above this level to be adjusted. We also use this level to assess the risks of material misstatement and plan the nature, timing and extent of our audit procedures.

Financial Statements (continued)

At the planning stages we have set our level of performance materiality at £3.617 million. This equates to 75% of overall materiality. This has been informed by our sector knowledge and prior experience, taking into consideration fraud risk indicators, prior year adjustments and accounting issues facing the sector.

In addition to the guidance on materiality ISA 450 requires the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial. Any identified errors greater than £241k in either the single entity or group accounts will be recorded on a schedule of immaterial misstatements, assessed individually and in aggregate, discussed with you and if not adjusted, signed off by you as part of your letter of representation to us.

We will review materiality at the reporting stage of the audit to assess its appropriateness in light of the revised financial statements. If total resource expenditure at year-end changes by more than 10% than the prior year figure the materiality thresholds will be revised.

At all times we will assess the impact of an item on the financial statements. An item of low value may be judged to be material by its nature (e.g. amounts disclosed in the remuneration report) and an item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Our work with Internal Audit

Each year, we engage with the Council's internal auditors to ensure that our audit approach takes account of the risks identified and the work Internal Audit have conducted, subject to our review of the internal audit function. We have not identified any areas in the current year where we will seek to place reliance on the work of internal audit. We have, however, reviewed the internal audit reports issued to date and note that their work has not identified any weaknesses which would impact our audit approach.

Our audit approach

We will use Voyager, our audit software package to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. We also tailor the software to incorporate the governance, regularity and performance risks identified at the planning stages.

Our approach will be to report all findings to management so that the Council can choose to secure any improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Planning

- Updating our understanding of the Council through discussions with management and review of reports presented to the Council and sub-committees
- Work with the Council's internal auditors to ensure that key risks are addressed by audit, but that we do not duplicate areas of work.

Interim Audit Work

- Reviewing the design, implementation and effectiveness of internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Performing sample testing of operating expenditure and payroll transactions up to 31 January 2015
- Reviewing and advising on material disclosure issues in the financial statements
- Reviewing governance, performance and Best Value arrangements

Substantive Procedures

- Performing analytical review
- Performing sample testing of transactions and balances
- Verifying all material income, expenditure and balances, taking into consideration whether audit evidence is sufficient and appropriate
- Reviewing the Annual Governance Statement for compliance with the CIPFA Code of Practice and whether disclosures are consistent with information gathered from our audit work.

Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to those charged with governance through our Audit Findings Report and Annual Report to Members and attendance at the Audit Committee and Council meetings as appropriate.

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions.

Reasonably possible risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning:

Other reasonably possible risks	Description of risk	Work planned
Operating expenses	**Creditors understated or not recorded in the correct period** (Operating expenses understated) Inverclyde Council is responsible for the delivery of a range of services to the local area. In 2013-14 the cost of delivering these services was £241 million. Purchasing is decentralised across service lines with the budgetary responsibility with the heads of service to ensure monies are recorded correctly.	• We will use our interim visit to review and walkthrough the processes and controls in place over the payment and recording of expenditure • Reconciliation of the creditors system to the general ledger and financial statements • Testing of year post end transactions for unrecorded liabilities
Employee remuneration	**Employee remuneration accrual understated** (Remuneration expenses not correct) In line with previous years the largest source of expenditure was employee costs. This comprises 41% of expenditure in 2013-14. There are a large number of transactions processed throughout the year and the Council relies on numerous controls to ensure that the employee costs are recorded correctly in the financial statements.	• Review and walkthrough the processes and controls in operation for employee remuneration • Analytically review payroll expenses in comparison to expectations and investigation of any significant variances • Substantive testing of employee remuneration accruals against expectation. • Review the relevant disclosures relating to staff costs within the financial statements • Reconciliation of the payroll system to the general ledger
Welfare expenditure	**Welfare benefit expenditure improperly computed** In 2013-14 the Council was paid £35.839 million in housing benefit subsidy. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits are awarded and recorded correctly.	• Review and walkthrough of the processes and controls in place to calculate, pay and record benefit expenditure • Analytically review the benefit expenditure in comparison to auditor expectations and investigate any significant variations • Sample testing of housing benefit payments • Review reconciliation between the benefits system and the amounts recorded in the financial statements

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Level of response required under ISA 600	Risks identified	Planned audit approach
Significant Components			
• Inverclyde Leisure	Comprehensive	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls.	Full scope UK statutory audit performed by Welsh Walker. We will issue group instructions outlining our key risks and planned materiality levels. We will seek assurances from Welsh Walker that the component accounts give a true and fair view and that there are no unadjusted errors which would have a material impact on the group.
• Riverside Inverclyde	Comprehensive	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls.	Full scope UK statutory audit performed by Scott-Moncrieff. We will issue group instructions to Scott-Moncrieff informing them of our key risks and planned materiality levels. We will seek assurances from Scott Moncrieff that the component accounts give a true and fair view and that there are no unadjusted errors which would have a material impact on the group.
Non-Significant Components			
• Strathclyde Partnership for Transport	Targeted	No risks identified other than the two standard ISA significant risks of fraud in revenue recognition and management override of controls.	We will issue group instructions to KPMG LLP informing them of specific (targeted) scope procedures to be performed by them to provide assurance for the group accounts.
• Strathclyde Concessionary Travel Scheme Joint Board • Renfrewshire Valuation Joint Board	Analytical	N/a	We will agree the figures in the group accounts to the audited financial statements of the individual bodies and perform analytical procedures to identify any risk areas.

Governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for:

- the conduct of its affairs
- including compliance with applicable guidance
- ensuring the legality of activities and transactions
- monitoring the adequacy and effectiveness of these arrangements in practice.

The Council's Audit Committee has a key role in monitoring these arrangements.

The Code of Audit Practice gives the auditor a responsibility to review and where appropriate, report findings on the Council's corporate governance arrangements. Specifically we will review:

- the systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- the standards of conduct and arrangements in relation to the prevention and detection of corruption
- risk management procedures
- the financial position of the Council.

This section sets out our approach to auditing key governance developments.

Annual Governance Statement

The Council has prepared an Annual Governance Statement (AGS) as part of their financial statements since 2013-14. This statement is a key document for conveying the governance framework within the Council and providing assurance around the achievement of key objectives. During 2013-14 we noted that good practice was in place to ensure the disclosures in the AGS were meaningful, concise and in line with guidance.

Under the Code of Audit Practice we are required to review and report on the AGS annually. We will assess the Council's reporting of governance, through the 2014-15 AGS and management commentary in the accounts against best practice.

Governance Arrangements

We will review the arrangements for risk management as part of our annual programme of governance work to give assurance to the Audit Committee on the maturity of arrangements and the extent to which risk management is embedded across services.

As we outline in page 6 the Council is working with partners to undertake the structural change necessary to deliver the requirements of the Public Bodies Joint Working Bill. We will assess progress in taking new integrated social and health care arrangements forward.

Governance (continued)

Fraud and Irregularity

It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

We engage with the Council's internal audit team to review specific areas of fraud risk. We also examine the Council's policies, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

The Council participates in the National Fraud Initiative, the Accounts Commission's data matching exercise designed to prevent and detect fraud in public bodies. The Council was required to submit data for the 2014-15 exercise in October 2014.

As part of our audit work in 2014-15 we will monitor the Council's participation in the scheme and the progress in investigating any issues arising from the Accounts Commission's matching exercise.

Partnership Working

The Council continue to work with a range of partners to deliver services. However, recent changes to legislation and investment announcements will create new partnership bodies including the Inverclyde Integrated Joint Board and the City Deal investment vehicle.

The Council's on going relationship with key partners such as Inverclyde Leisure, Riverside Inverclyde and the Beacon Arts Centre continue to require on going investment and management.

We will review the Council's partnership working arrangements as part of our 2014-15 audit.

Performance and Best Value

Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

The Act also places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and meeting their community planning responsibilities.

Performance information

Audit Scotland continues to stress the critical role of self-evaluation and good quality performance information in allowing Councils to demonstrate that they are delivering efficient and effective services.

Statutory Performance Indicators (SPIs) are one of the key ways that Council performance is measured and reported to the public.

SOLACE has established a total of 55 Local Government Benchmarking Framework (LGBF) performance indicators across 7 service areas. Inverclyde Council reports on 50 of these indicators (excluding housing). Under the new arrangements, Councils are compared against all other Councils in Scotland with highest performance being within quartile 1 and the lowest performance in quartile 4. Quartiles do not necessarily reflect 'good' or 'bad' service, but where the Council ranks against the other 31 Councils in Scotland. The Improvement Service released the 2013/14 LGBF data on Friday 30 January, and this was supplemented by a national report (note only 45 indicators applicable to Inverclyde have been published to date).

Inverclyde ranks in the top two quartiles of all Scottish local authorities for 55.5% of indicators, (25/45). 35.5% of all indicators lie in the top quartile, whilst 24.4% of indicators lie in the fourth quartile.

Whilst the benchmarking data can provide some insights, it is important to note that there are a number of variables that influence the performance reported. Members should use the data carefully to scrutinise and monitor performance.

The Policy & Resources Committee have approved an Improvement Plan for those indicators in the bottom two quartiles and these are now tracked via the relevant Corporate Development Improvement Plans (CDIPs).

For 2014-15, we will consider whether the SPI procedures meet the requirements of the SOLACE benchmarking framework and give sufficient evidence that the Council are achieving Best Value in their performance.

Performance and Best Value

Assurance and Improvement Plan

The Local Area Network (LAN) of external scrutiny bodies continues to work together to develop a shared risk assessment and Assurance and Improvement Plan (AIP) for the Council. The AIP 2013-16 was published in May 2013 and outlined planned scrutiny for the period to 2016.

We are currently engaged in a refresh of the Council's AIP. The shared risk assessment and scrutiny plan is being reviewed based on all recent work undertaken by scrutiny partners, including our findings within our Annual Report to Members 2014-15.

National Studies

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them at a committee level and act on them accordingly. As external auditors, we are required to consider:

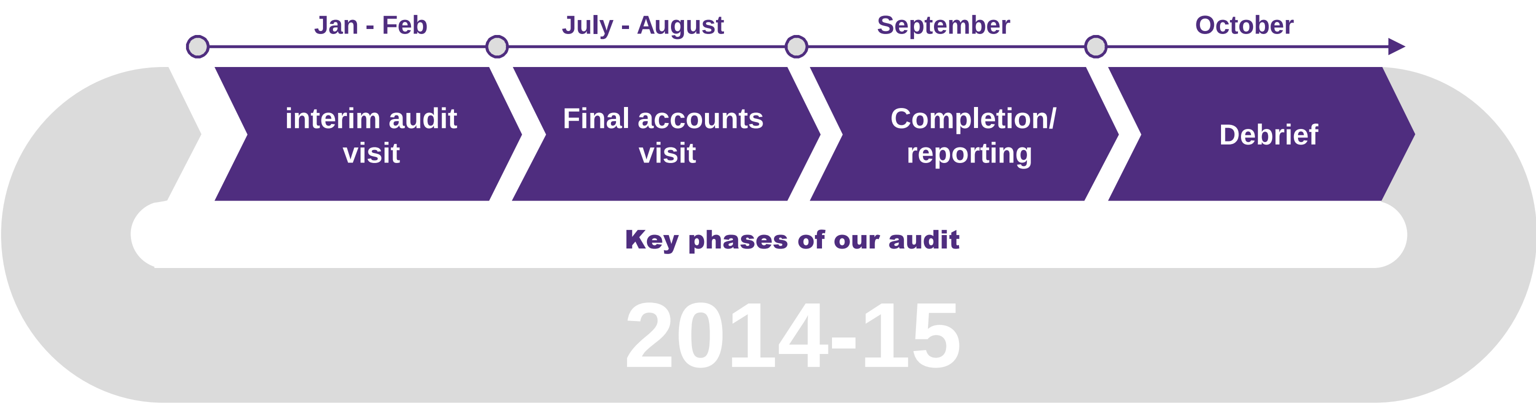
- whether the Council has discussed the national report at committee level
- whether the Council has carried out a self-assessment against the national report
- whether an action plan has been developed as a result of any self-assessment.

We will review that there are sufficient mechanisms in place for the Council to review and learn from the recent national studies.

Audit Scotland request local auditors to follow up specific national reports and provide additional information. For 2014-15 no targeted follow up work is planned, however we have been asked to provide additional information on finance function capacity to inform an Audit Scotland report.

Logistics and our team

The audit cycle



Date	Activity
Jan 2015	Planning meetings
Jan – Feb 2015	Interim site work
24 Feb 2015	Audit plan presented to the Audit Committee
29 Jun 2015	Year end fieldwork commences
Aug 2015	Audit findings clearance meeting
Sep 2015	Audit Committee meeting to report our findings
Sep 2015	Sign financial statements
Oct 2015	Issue Annual Report to Members
As required	Certification of grant claims

Our team

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Claire Bailey Manager **T** 0141 223 0727 **E** claire.bailey@uk.gt.com	**Raul Rodriguez** IT Audit Specialist **T** 0131 659 8534 **E** raul.rodriguez@uk.gt.com
Paul Bready Assistant Manager **T** 0131 659 8520 **E** paul.bready@uk.gt.com	

Fees and independence

Fees

	£
Council audit (including Grant Certification)	262,095
Total fees (excluding VAT)	**262,095**

2013-15 Audit Fee

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for central government bodies. Audit Scotland requires that the agreed fee is within the limits of the indicative fee range.

Your external audit fee for 2014-15 is £262,095 representing a 1% increase compared to the prior year in line with Audit Scotland guidance.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

We have been appointed as the Council's independent external auditors by the Accounts Commission, the body responsible for appointing external auditors to Local Authorities in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Audit Scotland Code of Audit Practice ('the Code') includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Group's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

Appendix A: An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified the highest risk of material misstatement in the financial statements. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. The International Standards on Auditing identify two overall significant risks inherent in any financial statements. These are separately disclosed in the significant risks table on page 10.

Reasonably Possible – Reasonably Possible risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake extended substantive testing. Cycles where we have identified a reasonably possible risk of material misstatement are outlined in full on page 11 along with full details of the proposed testing

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the financial statements is not material we do not carry out detailed substantive testing.

Section of the financial statements	Material (or potentially material) balance?	Description of risk	Inherent risk	Material misstatement risk identified?	Inherent risk assessment	Will substantive testing be carried out?
Net cost of services operating expenditure	Yes	Operating expenses are understated	Medium	Reasonably Possible	Operating expenditure was £139 m (excluding staff costs and recharges) in 2013-14 with a high volume of transactions being processed through the accounts payable system. We have therefore assessed the inherent risk as medium.	✓
Net cost of services staff costs	Yes	Employee remuneration accruals are understated	Medium	Reasonably Possible	In the 2013-14 accounts the Council reported staff costs of £111m (41% of the net cost of services). There is therefore a high number of monthly transactions which represents a significant proportion of running costs. Based on this information we have assessed the inherent risk as medium.	✓
Net cost of services housing benefit	Yes	Welfare benefit improperly computed	Medium	Reasonably Possible	The expenditure on housing benefit in 2013-14 was £36 million. There is a high volume of transactions processed through the Housing Benefits system. We have therefore assessed the inherent risk as medium.	✓

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Net cost of services and other revenues	Yes	Revenue is fraudulently recognised	Low	None	We have considered the nature of the revenue streams at the Council and concluded that risk of fraud arising from revenue recognition can be rebutted.	✓
Surplus/ deficit on the revaluation of non-current assets	Yes	Revaluation measurements not correct	Low	None	The values of fixed assets are updated as part of the year end processes which comprises a low volume of high value transactions. We have therefore assessed inherent risk of material misstatement as low.	✓
Return on pension assets	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Actuarial losses on pension assets and Liabilities	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Property, plant and equipment	Yes	Allowance for depreciation not adequate	Low	None	The depreciation balance is comprised of a low volume of high value transactions. We have therefore assessed the inherent risk associated with revenue recognition as low.	✓
Heritage assets	Yes	Valuation measurements are not correct	Low	None	There are limited transactions impacting the year end balance not expected to be material. We have therefore assessed the inherent risk associated with revenue recognition as low.	×
Intangible assets	No	Allowance for amortisation not adequate	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Long term investments	Yes	Fair value measurements not correct	Low	None	Investments are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓

An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Inventories	No	Inventory prices and quantities are not valid	Low	None	In the 2013-14 accounts the balance disclosed was below materially and therefore the risk is deemed to be low.	×
Debtors (long and short term)	Yes	Recorded debtors are misstated	Low	None	Debtors is comprised of a high volume of routine low value transactions. We therefore assess the inherent risk associated with debtors to be low	✓
Assets held for sale	No	Revaluation measurements are not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Cash and cash equivalents	Yes	Cash misappropriated	Low	None	Handled cash is comprised of a high volume of low value transactions therefore we have deemed inherent risk to be low.	✓
Borrowing (long and short term)	Yes	Debt obligations not reflected accurately	Low	None	Borrowing is comprised of a low volume of high value transactions. We therefore assess the inherent risk of material misstatement to be low.	✓
Trade and other payables	Yes	Creditors understated or not recorded in the correct period	Medium	Reasonably Possible	Creditors in 2013-14 were £24m with a significant number of transactions occurring around the year-end. The creditors figure is comprised of a number of accruals with a high value and requiring management judgements. We have therefore deemed the inherent risk to be medium.	✓
Provisions	No	Provision is not adequate	Low	None	In the 2013-14 accounts, the amount disclosed for provisions was below materiality, with the risk deemed to be low.	×
Pension liability	Yes	Fair value measurements are not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Reserves	Yes	Reserves are not correctly recorded	Low	None	The balance is comprised of a very low volume of high value transactions therefore inherent risk is deemed to be low.	✓

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