North Lanarkshire Council

Annual Report on the Audit to the Council and the Controller of Audit 2011/12

September 2012

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Executive summary

Financial statements

We are pleased to confirm that our independent auditors' report contains an unqualified audit opinion on the annual accounts for the year ended 31 March 2012. We also certify that the accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements. We have, however, drawn attention to the fact that the Land Management significant trading operation failed to break even, on a cumulative basis, over the three year period to 2011/12. The three year deficit (£0.341 million) is due to costs of restructuring associated with the Council's financial savings programme.

Use of resources

The Council achieved a general fund surplus of £30.481 million in 2011/12. The general fund balance brought forward at 1 April 2011 of £21.176 million increased to a cumulative net surplus of £51.657 million at 31 March 2012. The Council has an agreed contingency reserve of £12 million, £21.881 million earmarked to fund specific future commitments and recently approved a further £17.776 million to be earmarked in respect of future change management costs.

The Council spent £142.681million on general fund capital expenditure in 2011/12. This compares with an approved capital programme for the year of £151.948 million. This represents 93.9% of the programme and reflects the final year of a five year capital programme which resulted in capital investment of over £513 million.

During 2011/12, the Council delivered significant savings targets. In year savings of over £30.223 million are part of a savings programme which is aimed at delivering £52.623 million of savings between 2011/12 and 2012/13.

Performance

The Council's performance management framework was revised and updated in February 2012. The review considered whether the Council's strategies and plans were linked and supported by performance data. The Council also assessed its performance management arrangements against good practice guidance issued by the Local Government Improvement and Development Agency. Overall, from our review of the Council's performance management arrangements, we concluded that the arrangements are sound.

Governance

We have reviewed the Council's corporate governance arrangements in relation to risk management, its systems of internal control, prevention and detection of fraud and irregularity and standards of conduct, including the prevention and detection of bribery and corruption. We are pleased to report that governance arrangements appear effective.

Looking forward

Due to a combination of the increased demand on Council services and a reduction in the level of revenue and capital funding further savings of approximately £73.3million are required over the next three financial years (commencing 2013/14). This will require reductions of approximately 15% across services over the three year period. A draft package of savings options totalling over £105.7 million has been presented to the Council's Policy and Resources Committee for approval to allow progression to the next stage of consultation with staff and the local community. The Council aim to have a savings package agreed by December 2012.

The Council continues to be actively involved in the proposed major regeneration of the Ravenscraig site. The planned development will see the creation of Scotland's first new town in over 50 years. To support the proposed development, the Council is looking to invest approximately £83 million in capital funding. The future development of the Ravenscraig site represents both a significant risk and opportunity for the Council. The proposal is one of the largest regeneration projects in Europe, covering 450 hectares (1,125 acres). It is envisaged that the full development will create 12,000 jobs in the area and the development will have a considerable impact on both the wider North Lanarkshire community as well as neighbouring authorities.

The Council has undertaken a review to identify the potential for externalising its commercial property portfolio and to generate a significant capital receipt.

Scott-Moncrieff
September 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of North Lanarkshire Council. The scope of our audit was set out in our External Audit Plan, which was presented to the Audit and Governance Panel at the outset of our audit.

2. The main elements of our audit work in 2011/12 have been:

   - Providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a 3 year rolling Assurance and Improvement Plan (AIP) for the Council and a national scrutiny plan. Contributing to best value audits and other scrutiny responses agreed through the SRA process. Participating in the 2012 interim refresh of the scrutiny plans;
   - Audit of the financial statements, including a review of the annual governance statement;
   - Review of corporate governance arrangements, internal financial controls and financial systems;
   - Review of the management and monitoring of the Council's IT infrastructure;
   - Review of budget setting and control;
   - An assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
   - Review of the Council's response to Audit Scotland's national study reports; and
   - Provision of an opinion on a number of grant claims and returns including Whole of Government Accounts.

3. We have prepared detailed reports on a number of the areas noted above. The key issues arising from these outputs are summarised in this annual report.

4. This report is addressed to both North Lanarkshire Council and the Controller of Audit and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

5. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Council. In this section we summarise the key outcomes from our 2011/12 audit of North Lanarkshire Council's financial statements.

Our responsibilities

6. We audit the financial statements and give an opinion on:

   - whether they give a true and fair view, in accordance with law and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code) of the state of affair of the group and of the Council and of the income and expenditure for the year then ended;
   - whether they have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2011/12 Code;
   - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003;
   - whether the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
   - whether the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

7. We are also required to report by exception on certain matters including, for example, whether the annual governance statement does not comply with *Delivering Good Governance in Local Government* or there has been a failure to achieve a prescribed financial objective.

Independence

8. International Standard on Auditing 260 – *Communication of Audit Matters with those Charged with Governance* – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

9. We provided no additional services to North Lanarkshire Council during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Legality

10. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the Council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

11. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Responsibility for the Statement of Accounts

12. It is the responsibility of the Council and the Executive Director of Finance and Customer Services to prepare the financial statements in accordance with the proper practices set out in the 2011/12 Code. This means:

- Preparing financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year then ended;
- Maintaining proper accounting records which are up to date; and
- Taking steps for the prevention and detection of fraud and other irregularities.

Overall Conclusion

13. Our audit report is included on pages 88 and 89 of the annual accounts and is addressed to members of North Lanarkshire Council and the Accounts Commission for Scotland. The report was issued on 26 September 2012 and is unqualified. We also certify that the accounts have been prepared properly in accordance with applicable law, accounting standards and other reporting requirements.

14. We have however, drawn attention in our audit report to the fact that the Land Management significant trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 23). Whilst this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

15. North Lanarkshire Council is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We can confirm that North Lanarkshire Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.

16. Under Section 101 of the Local Government (Scotland) Act 1973 any person may lodge an objection to the unaudited accounts within a limited timescale. We can confirm that one

objection was received in relation to the unaudited accounts and payments made during 2011/12. This is currently being considered by ourselves as external auditors. We will report our conclusions to Audit Scotland and the Council in due course. The nature of the objection has not impacted on our overall opinion on the financial statements.

17. The quality of the financial statements prepared by the Council is of a good standard. Our thanks go to staff at North Lanarkshire Council for their assistance with our work.

Format of the Accounts

18. The financial statements should be prepared in accordance with the 2011/12 Code. The Code specifies the principles and practices of accounting required to prepare a statement of accounts which gives a true and fair view of the financial position and transactions of a local authority and to prepare group financial statements where there are material interests in subsidiaries, associates or joint ventures.

19. As part of our 2011/12 audit we considered the arrangements the Council had in place to ensure compliance with the requirements of the Code. Overall we concluded that the Council has complied with those requirements. The key findings arising from our audit of the financial statements are summarised in the sections below.

Audit Adjustments

20. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation and have been agreed with the Executive Director of Finance and Customer Services.

21. We have also identified a number of potential adjustments which are not considered material to the financial statements, either individually or in aggregate. These potential adjustments have been reported to the Executive Director of Finance and Customer Services and are included as an appendix to the letter of representation.

Key areas of audit focus and significant findings

22. We are required by international auditing standards to report to the Council the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Significant Trading Operations

23. Under the *Local Government in Scotland Act 2003* North Lanarkshire Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The Act also prescribes that STOs have to break even over a three year rolling period.

24. North Lanarkshire Council currently operates five statutory trading operations. Overall, the STO's reported a combined surplus of £581,000 in 2011/12. The reported financial position takes into account exceptional costs associated with restructuring (£1.498million).

25. The table below shows the surplus/deficit over the three year rolling period for the five STOs:

Table 1: Surplus/(Deficit) over 3 year rolling period for the Council's STOs

	Surplus/(Deficit) £million	Exceptional Items £million	Revised Surplus/(Deficit) £million	Prior year 3 year Surplus/(Deficit) after Exceptional Items £million
Building Cleaning	1.572	0.163	1.409	0.951
Catering	1.595	0.250	1.345	1.981
Land Management	0.982	1.323	(0.341)	0.897
Waste Management	0.400	0.232	0.168	1.811
Fleet Operations	0.255	0.246	0.009	0.547

(Source: North Lanarkshire Council's annual accounts)

26. The table above shows that Land Management has failed to achieve a breakeven position over the three year period. This is due to exceptional costs associated with restructuring (strain on the fund costs, redundancy costs and costs associated with changes in shift patterns).

27. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The Council has failed to comply with this statutory requirement for the three year period ending 31 March 2012 in respect of the Land Management significant trading operation. We have reported this in matter in our independent auditors report.

Remuneration Report

28. Local authorities are required to prepare a Remuneration Report as part of their annual statutory accounts. A new requirement for 2011/12 is the disclosure of the Council's use of exit packages. This disclosure includes the number and total cost of exit packages agreed, grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter. This disclosure needs to be analysed between compulsory redundancies and other departures.

29. Within the Council's draft financial statements the costs relating to compensatory added years for teachers were not included. Further work was performed by the Council to identify these costs and the exit packages schedule has subsequently been amended to accurately reflect the total costs of exit packages agreed by the Council during the 2010/11 and 2011/12 financial years. The impact of this adjustment to accounting treatment was to increase the amount requiring to be included and disclosed in the remuneration report by £5.704 million.

30. We have reviewed the relevant disclosures and are satisfied that they have been properly prepared in accordance with the applicable regulations.

Employee Benefits

31. The Code requires authorities to account for employee benefits in accordance with IAS 19 "*Employee benefits*" (as interpreted by the Code). The Council is also required to comply with statutory guidance issued in finance circular 3/2010 "*Statutory guidance on accounting for short term accumulating compensated absences*". Employee benefits are all forms of consideration given by an authority in exchange for services rendered by employees. IAS 19 requires authorities to recognise the cost of providing employee benefits in the period in which the benefit is earned by the employee, rather than when it is paid or payable. It includes short term benefits, such as untaken annual leave and post-employment benefits, such as retirement benefits.

Short Term Benefits

32. Short-term benefits include items such as wages and salaries, paid annual leave, sick leave and other benefits. A liability for untaken annual leave of £10.881 million was outstanding at 31 March 2012, a reduction from £10.948 million in the prior year. This reduction is due to a national change in teachers' terms and conditions. In accordance with the statutory guidance (finance circular 3/2010), the Council has made an adjustment to exclude the value of this charge when determining the movement on the general fund for the financial year. During our audit we reviewed the Council's approach to estimating this liability and concluded that the approach was in accordance with applicable guidance.

Retirement Benefits

33. Like other local authorities, the Council has a significant local government pension fund liability within the financial statements. The Council participates in the Strathclyde Pension Fund. The net pension liability reflects the Council's share of pension fund assets and liabilities is informed by an annual valuation undertaken by an independent actuary. The net retirement benefits liability increased significantly during the year, from £165.443 million as at 31 March 2011 to £276.908 million as at 31 March 2012 (table 2):

Table 2: North Lanarkshire Council retirement benefits liability

	2011/12 £ million	2010/11 £ million	2009/10 £ million	2008/09 £ million	2007/08 £ million
Present Value of Defined Benefit Obligation	1,386.776	1,275.666	1,443.407	871.634	936.962
Fair Value of Employer Assets	1,109.868	1,110.223	1,021.009	735.879	940.590
Surplus / (Deficit)	**(276.908)**	**(165.443)**	**(422.398)**	**(135.755)**	**3.628**

(Source: North Lanarkshire Council Annual Accounts 2011/12)

34. Table 2 highlights the volatility within the pension liability. The main reason for the increase in pension liability since 2010/11 has been the reduction in the discount rate assumption from 5.5% to 4.8%. This assumption is based on actuarial guidance and reflects market yields. A reduction

in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future.

35. We have reviewed the accounting treatment on the retirement benefit liability and are satisfied that this has been recognised appropriately within the financial statements.

Group accounts

36. The 2011/12 Code requires North Lanarkshire Council to prepare group accounts, consolidating all entities in which the Council has a controlling interest.

37. The Council has a 100% interest of Campsies Centre Cumbernauld Ltd and Fusion Assets Ltd. These companies are consolidated as subsidiaries for the purpose of the group accounts. Partnerships exist between Amey Public Services, Morrisons Scotland LLP and Saltire Facilities Management Ltd, and therefore these entities are incorporated into the group accounts as joint ventures under a 33% ownership held by the Council. The Council has a non-controlling interest in seven further organisations including Strathclyde Police Joint Board and Strathclyde Partnership for Transport. These organisations are consolidated into the group accounts based on the level of investment held by the Council.

38. North Lanarkshire Leisure Trust (NLLT) represents a special purpose entity (SPE) where the organisation has been established to run leisure operations within the area. While the Council has a 100% interest in NLLT, it has been consolidated within the group accounts as an associate rather than as a subsidiary on the basis that they do not have significant control over the SPE.

39. International Accounting Standard 27 – *Consolidated and Separate Financial Statements (IAS 27),* requires the consolidation of entities into the group that are controlled by the reporting enterprise, in this case the Council. *SIC 12 Consolidation – Special purpose entities,* provides further guidance on the treatment of SPE created to accomplish a defined objective. SIC 12 requires an SPE to be consolidated within the group where the relationship between the Council and the SPE indicates that the Council has control over the SPE.

40. In our opinion, the relationship between the Council and NLLT is that of a subsidiary as the Council has a significant degree of control over governance and financial areas. However we do not believe the impact of consolidating NLLT as a subsidiary rather than an associate to have a material impact on the annual accounts. No adjustment has therefore been made to the annual accounts with regard to this.

Equal Pay

41. The Council recognises a provision for the payment of equal pay compensation claims based on the number of claims and anticipated outcome of these claims. The provision for equal pay claims is reviewed on an annual basis.

42. The provision for equal pay recognised in the Council's financial statements has decreased from a balance of £17.290 million at 31 March 2011 to £12.398 million. This is due to a pay-out of £0.513 million during the year, as well as a reduction to the liability of £4.379 million as a result of a re-assessment at the year-end based on current case law and the number of outstanding claims submitted. At 31 March 2012 the Council had 7,099 live equal pay claims outstanding.

43. We have reviewed the provision and found it to be in accordance with the Code and IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.*

Property, plant and equipment

44. During 2011/12 the Council spent £190.809 million on capital expenditure. Of this, £142.681 million related to general fund with the remainder attributable to HRA additions. This included the following expenditure:

- £96.810 million on schools;
- £8.985 million on leisure facilities;
- £2.840 million on social work facilities.
- £40.647 million of investment in council dwellings and other Housing Revenue Account properties; and
- £7.481 million on the Council's New Build Council Dwelling programme.

45. Of the expenditure in the year £139.761 million was financed by new borrowing. The additional borrowing will increase the level of finance costs incurred by the Council going forward, however the Council remains within its prudential borrowing indicators.

46. The Council is into the second phase of the school modernisation programme and has approved several projects covering primary and secondary schools, early years facilities, special needs schools and other community facilities.

Asset records

47. The Council maintains a fixed asset register which records all assets held and capital transactions throughout the year. We identified a number of items on the register where it was not initially clear what asset or assets the item represented. From further investigation we identified that assets with a value of £7.2 million represented an estimated carrying value for the level of fittings and equipment within the school estate.

48. While we do not consider the accounts to be materially misstated, there is a risk that the Council does not account for these assets fully in accordance with International Accounting Standard 16: Property, Plant and Equipment, in such that where these assets are being replaced, the underlying accounting records are not being updated to reflect this transaction. We recommend that the Council review and if necessary revise the basis for accounting for such assets prior to the preparation of the 2012/13 annual accounts.

Action Plan Point 1

Heritage assets

49. The 2011/12 Code introduced the requirement for authorities to account for tangible heritage assets in accordance with FRS 30 heritage assets. Heritage assets can be defined as those which are intended to be preserved by the Council for the future generations because of their cultural, environmental or historical associations, and are held and maintained principally for their contribution to knowledge and culture.

50. The Council has several heritage assets, including museum exhibits, works of art, and the Council's civic regalia with a total carrying value of £0.414 million. In previous years these have been accounted for within community assets or property, plant and equipment lines on the balance sheet. The assets are not considered to have sufficient value to justify separate disclosure within the face of the balance sheet. We consider the Council's approach to be reasonable and are satisfied that sufficient information is disclosed within the notes to the accounts to comply with the requirements of the Code.

Annual Governance Statement

51. Under the Code of Audit Practice we are required to review and report on the Council's Annual Governance Statement. The statement identifies the key elements of the internal control framework and governance arrangements, as well as the work of internal audit. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Governance Statement.

52. Where the authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control needs to include its group activities.

53. North Lanarkshire Council has published a group annual governance statement within its 2011/12 annual accounts. The statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities. The statement also includes a statement on internal financial control.

54. The Code introduced a new requirement during 2011/12 to disclose within the annual governance statement a specific statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to *Delivering Good Governance in Local Government: Framework*. Our review of the Council's annual governance statement has confirmed that this required disclosure had been made.

55. The Council obtain assurance over governance arrangements of entities consolidated within the group through a review of their most recent audited accounts, together with Council officers' detailed knowledge of these organisations as a consequence of their continued involvement with these bodies. We consider that the Council needs to strengthen its arrangements for obtaining

assurance on the effectiveness of the governance system in place with such bodies. We recommend that the Council obtain assurance statements from the directors of each of these group entities to provide assurance over the adequacy and effectiveness of systems of internal control and of the overall governance arrangements.

Action Plan Point 2

56. The Chief Executive and Council Leader have concluded, in their opinion, that reasonable assurance can be placed upon the adequacy and effectiveness of North Lanarkshire Council and its group systems of governance. Except for the issue noted above, this is consistent with our knowledge and understanding of the financial control framework operating at the Council. We also concluded that the disclosure included within the statement is in line with the requirements as set out in the Code.

Looking forward

Future arrangements of trust funds

57. The Council holds a total of 36 sundry trust funds, 12 of which are registered with OSCR. The total sundry trust fund balance amounts to £103,215 of which £36,934 relates to the registered charitable trusts.

58. The Council propose to consolidate all social trust funds into one charitable trust. By consolidating the trust funds into one charitable trust the Council envisage increasing the scope of the use of the funds and aim to achieve efficiencies over the administration of the funds. During 2011/12 an application was submitted to OSCR for this arrangement, however it was declined as:

- a separate application for each of the trust funds would have to be submitted, and
- the consolidated charitable trusts must assign a specific objective which satisfies the current use of trust funds to be consolidated.

59. The second of these points is likely to prove challenging to the Council as the lack of original documentation of the trusts will make it difficult to ascertain the specific objectives of the fund. The Council will continue to liaise with OSCR to find a solution to utilise these funds effectively going forward.

Use of resources

Introduction

60. In this section we summarise the key aspects of the Council's reported financial position and performance to 31 March 2012. We also consider and report on the Council's longer term financial plans, sustainability and workforce issues.

The Council's financial performance in 2011/12

61. The Council achieved a general fund surplus of £30.481 million in 2011/12. The general fund balance brought forward at 1 April 2011 of £21.176 million increased to a cumulative net surplus of £51.657 million at 31 March 2012. The net movement in useable reserves was £34.273 million.

Table 3: North Lanarkshire cash-backed funds

	2011/12 £million	2010/11 £million	Movement £million
General Fund balances	51.657	21.176	30.481
HRA	6.273	3.541	2.732
Capital Fund	1.429	0.865	0.564
Capital Grants Unapplied Account	1.225	1.453	(0.228)
Insurance fund	10.415	9.930	0.485
Repairs and Renewals Fund	0.622	0.383	0.239
TOTAL	**71.621**	**37.348**	**34.273**

(Source: North Lanarkshire Council Annual Accounts)

62. The Council's total reserves however reduced in comparison with the previous year (reduction of £138.291 million) due to a reduction in unusable reserves. The reduction was primarily due to a downward movement in the pension reserve and capital adjustment account reflecting amounts released for impairment and depreciation charges in the year.

63. Of the £51.657 million general fund balance, £21.881 million has been earmarked for specific purposes including for example £2.025 million for waste management and £3.771 million for work employability programmes. The unallocated general fund balance of £29.776 million is above the level previously agreed by the Council (£12 million). This is the result of savings and underspends being generated across services in excess of original forecasts. In September 2012, the Council approved a further £17.776 million of the general fund balance be earmarked in respect of future change management costs.

64. The Council has reported a favourable position against its budget for 2011/12. The main movements against its budget are summarised in the table below:

Table 4: Movements against budget for 2011/12

	£million
One off restructuring costs	5.900
Under recovery of planning and building control fees	1.000
Budget support to Youth Employment & Voluntary Sector	2.000
Equal pay review	(4.379)
Employee cost savings	(9.300)
Savings on external borrowing costs	(3.000)
Service expenditure review	(9.997)
Total movement against budget	**(17.776)**

Source: Annual Accounts 2011/12 and financial outturn position as reported to Policy and Resources (Finance & Customer Services) Sub-Committee (August 2012)

Service and People First

65. In 2007 the Council introduced a change management programme; 'Service & People First'. Since it was introduced the programme has helped deliver £78.5 million of savings in the period, vastly exceeding the original target of £50 million. The programme was extended to 2013/14 as part of a transformation programme. The transformation programme aims to co-ordinate all Council improvement activity within a single over-arching strategy and provides a framework to achieve an estimated budget reduction of £70 million between 2011/12 and 2013/14.

66. The Council agreed a two year saving package of £55.223 million in 2010 of which £30.223 million was required to provide a balanced budget in 2011/12. The remaining £25 million is to be achieved in 2012/13.

Table 5: North Lanarkshire Council – Savings plan 2011-13

Workstream	Total £million
Workforce Deployment	24.195
Service Prioritisation	16.645
Asset Management	3.994
Procurement	3.653
Income Generation	4.074
Phase Two – Shared Services	1.400
Additional savings	1.262
Total	**55.223**

(Source: Financial Savings Options 2011/12 – 2012/13 report)

67. Due to a combination of the increased demand on Council services and a reduction in the level of revenue and capital funding further savings of approximately £73.3 million are required over the next three financial years (commencing 2013/14). This will require reductions of approximately 15% across services over the three year period. A draft package of savings

options totalling over £105.7 million has been presented to the Council's Policy and Resources Committee for approval to allow progression to the next stage of consultation with staff and the local community. The Council aim to have a savings package agreed by December 2012. We understand the unallocated general fund balance in 2011/12 will be required to fund future change management activity.

Workforce Change

68. Delivering the required efficiency savings has required significant cost cutting measures at the Council. One of the most significant areas of cost and subsequently efficiencies is in workforce costs. Over the last two years the change management costs have been incurred in respect of 323 early retirements/voluntary redundancies. Change management costs have also been incurred in respect of compensatory buy-outs to achieve changes to conditions of service or working patterns. To date, the Council has incurred costs of £12.266 million with a further £1.134 million expected. It is anticipated that further costs will be incurred through the implementation of further required savings plans.

69. While to date the Council has endeavoured to continue to improve efficiency, maintain service levels and quality and minimise the impact on service users of workforce changes and service redesign activities, the scale of future financial savings required will make this increasingly more difficult to achieve.

Resource and demand pressures

70. The public sector faces a number of significant cost pressures, making it difficult to reduce costs, whilst maintaining service standards. Service demand is increasing and is likely to increase in the future, due to an ageing population, the effects of the recent recession and the increased expectations of the public. This increases the pressure on the ability of public bodies to provide efficient and quality services at a time when budgets are already under pressure and reducing.

71. Audit Scotland's recent report '*Scotland's public finances – Addressing the challenges'* categorises the main cost pressures facing the public sector into six key areas as illustrated in the table below. From our review of North Lanarkshire Council's financial plans we confirmed that the Council has built into its 2012/13 budget, where applicable, the demand and cost pressures currently facing councils.

Table 6: Financial Challenges

Area	North Lanarkshire Council
Demand	Demographic change costs of £1 million relating to provision of services for the elderly have been recognised. Additional costs of £2.462 million have also been forecast in relation to an anticipated 3% increase for social care contracts.
Financial	The Council has identified the requirement to deliver significant savings in both the short term and medium to long term. A 2-year (2011-13) savings package totalling £55.223 million is currently being delivered, reflecting significant reductions in the level of current funding.
Workforce	The revenue budget includes an estimated £4.619 million of staff and teachers incremental progression costs, as well as £0.5 million relating to a review of the Council's pay and grading model. The Council has provided for no pay awards to be made during 2012/13. An additional £0.6 million is being provided for a change in legislation, requiring all employees to automatically enrol in the council's pension scheme. This cost becomes effective on 1 March 2013.
Investment	The Council's considers investment pressures in the setting of its budget through the impact it has on borrowing costs. The Council included additional borrowing costs of £1m in its 2012/13 budgeting process, in order to finance £16.5m of prudential borrowing. In the past the Council had the ability to implement Private Funding Initiatives (PFIs) as a way of creating Public-Private Partnerships (PPPs). This regime has now ended and, while the active PPP contracts are significant and will be allowed to run until their termination dates, the Council are exploring new options to support further investment.
Maintaining Assets	The effects of asset maintenance and repairs have been considered during the preparation of the 2012/13 budget. Roads and property contracts are estimated to increase by 5%, translating into an additional cost of £0.75 million. The Council's schools estate management plan 2010 identified that to bring schools up to an acceptable standard would require investment of £800 million. While considerable improvements have been made with major investment in the Education 2010 and Schools and Centre 21 projects as well as ongoing investment in the remaining schools, a considerable backlog of investment still remains. The Council has allocated an additional £1.5 million to schools, targeting schools where the greatest deterioration to the building fabric has occurred.
Environmental	As part of the 2012/13 revenue budget the Council identified additional recycling and waste initiative costs of £1.628 million. The Council recognised that it was vital to move away from a culture of disposing waste through landfill, and is providing funding to support the "Recycle for Good" initiative and the development of a residual waste treatment facility. The Council's Carbon Reduction Commitment report, published in November 2010, assumed that purchasing 50,000 carbon allowances would be cost neutral. However, based on the 2010/11 consumption levels, and adjusting for the severe winter experienced that year, the Council's minimum tonnage carbon allowance has been estimated at 66,000 tonnes, for which the Council has included an additional £0.9 million in the budget.

Capital programme

72. Over the last five years the Council has invested £513 million in capital projects including £231 million on schools, £81 million on sports and leisure facilities and £63 million on roads, street lighting and bridges. Given the current economic climate and financial resources available to the Council, the level of capital investment over the next five years is expected to be significantly lower than the previous five year period.

73. The Council has forecast that the total level of resource available over the next five years will be £245.839 million. This includes support funding of approximately £68 million from the Scottish Government for specific projects including the next phase of the schools refurbishment plans as well as additional funding of £23 million towards a replacement secondary school project.

74. The capital plan is linked to service asset management plans (AMP). This ensures that future investments incorporated required capital need from services before being committed into new capital investment programmes. This approach of establishing capital budgets ensures that the Council does not over commit its resources.

75. Of the total available forecast capital resource over the next five years, £101 million is required to support AMPs. £73.3 million will be utilised as part of the supported funding projects, including £5.3 million of the Council's own resource, leaving a balance of £69.939 million for new projects. The Scottish Government has yet to formally approve capital grant funding for the remaining years of the current Spending Review (2013/14 and 2014/15) and has given no indication of the level of support beyond those years. The Council has funded a significant part of the capital programme from self-financed prudential borrowing, in particular its Schools and Centres 21 major refurbishment project. It may need to consider making provision from within its revenue resources for future prudential borrowing to deliver projects that it considers essential.

Partnership working

76. The Clyde Valley Partnership continues to progress. In October 2010, the eight Clyde Valley councils announced that they were planning to share services in waste management, transport, health and social care, and support services. North Lanarkshire Council is leading with the waste management workstream.

77. North Lanarkshire Council, East Dunbartonshire Council, East Renfrewshire Council and Renfrewshire Council have signed a binding agreement to deliver a solution for the future management of residual waste. To deliver the solution a project team has been established, with the Head of Land Services at the Council as project director. The project team are currently recruiting a project lead which will be jointly funded by the four member councils. This demonstrates the commitment from the member councils to deliver a viable working solution.

78. Progress with the waste management programme will become increasingly important given the Council's need to generate significant efficiency savings across all services including waste

management. This work will have to be undertaken whilst complying with the requirements of Zero Waste Scotland regulations including commitments in reduction of landfill. We will continue to monitor the progress made by the working group over the forthcoming years.

Information Technology

79. As part of our external audit coverage for the Council we performed a broad but high level review of the management and monitoring of the Council's IT infrastructure. During the review we identified several areas of good practice, including the operation of the service desk, physical and environmental security of the data centres and the approach to system developments. We did however also identify a number of areas with scope for improvement. A report has been issued in draft form and is currently being discussed with management. Once finalised, the report and agreed action plan will be submitted to management and the Council's Audit and Governance Panel.

Looking forward

Ravenscraig development

80. The Council continues to be actively involved in the proposed major regeneration of the Ravenscraig site. The planned development will see the creation of Scotland's first new town in over 50 years. To support the proposed development at Ravenscraig, the Council is looking to invest approximately £83 million in capital funding. The Scottish Government has approved the project as a pilot Tax Incremental Financing (TIF) scheme whereby the costs of borrowing for the investment will be financed by future non-domestic rates income. To support its commitment to the scheme the Council propose investing £10 million in roads infrastructure to support connections to the site.

81. The future development of the Ravenscraig site represents both a significant risk and opportunity for the Council. The proposal is one of the largest regeneration projects in Europe, covering 450 hectares (1,125 acres). It is envisaged that the full development will create 12,000 jobs in the area and the development will have a considerable impact on both the wider North Lanarkshire community as well as neighbouring authorities. These have been incorporated into a full business case and the Council has plans in place to mitigate the financial risks. The Council has appointed specialist legal advisors in relation to the project and financial advisors to update the financial model and provide advice and support.

Future property management

82. The Council has undertaken a review to identify the potential for externalising its commercial property portfolio to generate a significant capital receipt. The Council aim to utilise the rental income generated by the Council's non-operational property portfolio to borrow to generate a capital receipt. The preferred option is setting up a Limited Liability Partnership (LLP) in the form of an arms-length organisation. The Council envisage that the property will be transferred to the new organisation with funds being generated through borrowing against future rental income.

83. If the Council decides to progress with the proposed asset transfer, careful consideration should be given as to how the assets, and the new organisation, will be recognised within the Council's accounts. Furthermore, as the model relies on future rental income there is an element of risk attached to the proposal. It will be important to clarify from the outset of any agreement who is responsible for any potential shortcomings in rental income.

84. We are aware that the Council has engaged with PricewaterhouseCoopers and Dundas & Wilson to provide financial and legal support. We will continue to monitor developments with the proposed asset transfer and will liaise with the Council to ensure that the transaction is appropriately recognised within the financial statements.

Welfare reform

85. The UK government's Welfare Reform Act received Royal Assent on 8 March 2012. This is the biggest reform of the UK welfare system for 60 years and promises to change the lives of millions of households by creating a new Universal Credit for working age claimants.

86. The main drivers for this legislation are to improve work incentives, simplify the benefits system, to tackle the administrative complexity of existing systems and to deliver savings.

87. The provisions in the Act will result in a number of significant changes for how local authorities deliver services. Universal Credit will end the devolved administration of housing benefit. Council tax benefit will be replaced by a Scottish council tax reduction scheme from April 2013. There will also be a shift in terms of the delivery of services such as the Social Fund, community care grants and benefit fraud investigations. Going forward, the role councils will play in the delivery of welfare reforms is not yet clear although there is an expectation that councils will provide some face to face support to benefit claimants.

88. It will be important for the Councils to manage down their housing benefits services while at the same time retaining sufficient capacity to provide face to face support to claimants. Local authorities need to communicate welfare reform HB changes accurately and effectively to local residents and other stakeholders. The number and complexity of the changes will require significant training and development activities to be undertaken by local authority staff.

89. The introduction of a Single Fraud Investigation Service (SFIS) will result in council staff currently employed on benefit investigations working under the SFIS policies and procedures from 2013. The staff will remain employed by councils in the short term with the intention that they will transfer to the SFIS at a later date. The SFIS will not however cover fraud in the new Scottish council tax reduction scheme. The Council will therefore need to consider how to tackle fraud in this area.

Performance

Introduction

90. This section of the report looks at performance management arrangements within the Council and the arrangements in place to deliver best value. An effective performance management system is a key component in the effective monitoring and management of public sector resources.

Performance management arrangements

91. The Council's Performance Management Framework encompasses seven major sets of activities. At a strategic level it focuses on the Single Outcome Agreement (SOA), Corporate Plan, Community Plan and Partnership Group Action Plans.

92. The Council's performance management framework was revised and updated by the Council in February 2012. The review was carried out to ensure that the Council's strategies, plans and performance measures were effectively linked and supported by performance data. The Council also assessed its performance management arrangements against good practice guidance issued by the Local Government Improvement and Development Agency.

93. At an operational level the focus is on self-assessment, service plans and performance portfolios which contain a range of statutory and non-statutory performance indicators. There is no differential made between these categories of performance indicators within the performance arrangements, both are used within the council's Public Performance Reporting (PPR) arrangements.

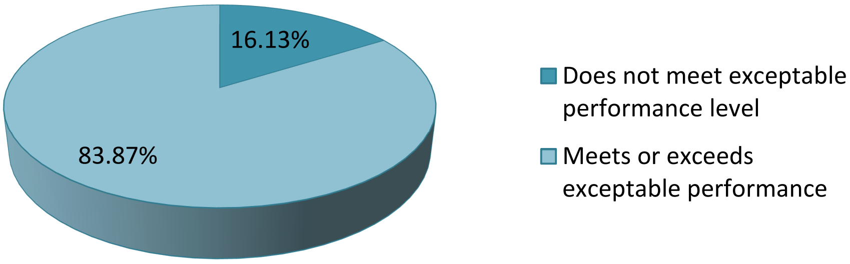
94. The Corporate Service Improvement Team carries out an annual review of service plans and performance portfolios prior to their finalisation and approval by Service Committees. During 2011/12 a further final review stage between the Executive Directions and the Chief Executive was introduced. This review process ensures that all targets and thresholds are appropriate and based on previous trend information. Final approval is through service committees.

95. Overall, from our review of the Council's performance management arrangements, we concluded that the arrangements are sound.

Summary of performance

96. Performance during the year is monitored at service level committees. The Scrutiny Panel also monitor performance at a corporate level. Diagram 1 summarises the performance of the Council across all of the performance indicators.

Diagram 1: Summary of performance



Source: Corporate Annual Plan Performance Report – September 2012

Performance indicators

97. The Council's year end in-house processes for producing performance information was reviewed and developed during 2011/12 with a move to electronic sign-off and indicator definitions and responsible officer arrangements being updated. Services are also required to have appropriate management arrangements in place to ensure processes for recording, reporting and publishing information are robust.

98. Our review of performance information for the indicators/measures selected for audit testing did identify a small number of errors which resulted in audit adjustments. As these have been corrected or excluded from the Council's annual performance report, we are satisfied, for the sample tested, that the arrangements for the collation of performance information is appropriate and adequate.

Action plan point 3

Public Performance Reporting

99. The Council undertook a full review of PPR arrangements in April 2010 utilising the citizen's panel arrangements. The Council's Corporate Service Improvement Team is continuing to strengthen PPR arrangements using the outcome report. Through the Council newspaper, a series of case studies have been developed and plans are in place to further develop the website and the new intranet to be more customer focussed.

100. We reviewed a number of improvement actions linked to the annual performance report 2010/11 and identified that a small number of actions did not have clear targets and timescales attached. The Council should ensure that when actions are detailed clear timescales and projected outcomes are clearly stated.

Action plan point 4

National Performance Reports

101. National performance reports are reported to the Council's Audit and Governance Panel. The reports are presented for the Panel's outlining the key messages within the report and recommendations for local authorities. For each report the Council includes an appendix setting out the recommendation and the Council's management response. Where relevant the Council

identifies how it is addressing or will address the issues raised by Audit Scotland, however, we consider that the management responses could often be more specific and that the Council should consider including specific planned actions, timescales and responsible officers to better enable the Audit and Governance Panel to monitor the Council's response to Audit Scotland's national performance reports.

Action plan point 5

Self-assessment activity

102. The Council has recognised that effective self-assessment can be a very useful tool in identifying areas for change and continuous improvement. The Council has used self-assessment methods at service and committee level. For example, the Council's Scrutiny Panel carried out a self-assessment of itself in August 2011. The self-assessment was used to review the effectiveness of the Panel and identify areas for improvement. An action plan was developed to address the areas identified, such as increasing the number of Panel members and expanding the Panel's terms of reference. The Audit and Governance Panel has also undertaken a self-assessment against recognised good practice and identified and then implemented a range of improvement actions.

103. The Council's self-assessment tool is based on the Public Service Improvement Framework (PSIF) model. This model is specifically designed for public sector organisations and is developed on the principles of the EFQM excellence model. The PSIF requires councils to set out a framework for undertaking self-assessment across all services, enabling services to identify strengths and areas for improvement. Services within North Lanarkshire Council are supported in developing and using the PSIF model by the Council's Corporate Services Improvement Team. In addition to internal use the Council used the PSIF model with the North Lanarkshire Partnership. Through self-evaluation and facilitated workshops the partnership identified key areas for development including developing outcomes and enhancing performance management arrangements for the partnership. An action plan has been developed to address the findings of the PSIF self-assessment setting out timescales and lead officers for each action.

Best Value

104. Audit Scotland published its audit of best value and community planning at the Council in May 2008. Audit Scotland reported that the Council had a clear vision and strategic direction and that members and senior management provide clear and consistent leadership. Services were improving within the Council though this was from a low starting point and many of the changes introduced had happened quite recently. Audit Scotland however stated it was too early for the full impact of changes to be recognised and that the Council must develop and implement its improvement agenda to demonstrate continuous improvement.

105. Following the Best Value review the Council agreed that responsibility for monitoring the delivery of best value and the implementation of the improvement agenda would be overseen by the Audit and Governance Panel. The Panel receives regular reports and updates on best value throughout the year and also receives reports on specific areas of best value. For example, in

November 2011 the Panel received an update on the Council's progress in developing sustainable development. This report was in direct response to the Panel's request for more information on the work the Council was undertaking in this area. The report set out the Council's structured approach to mainstreaming sustainable development and carbon management, including planned improvements and recent developments.

Roads follow-up

106. The Audit Scotland report 'Maintaining Scotland's Roads: a follow-up report'' was published in February 2011. The report examined progress on implementing the recommendations contained in Audit Scotland's Maintaining Scotland's roads report published in 2004. As part of the 2011/2012 audit work Audit Scotland asked external auditors to carry out a review of councils' responses to the follow up report. In June 2011/12 we carried out a targeted follow up review to assess the progress made by the Council in seeking to improve its road maintenance activities. The findings of this work have been presented to the Council in a separate stand-alone report but have been summarised here.

107. Maintaining Scotland's Roads: a follow-up report was considered by the Council's Audit and Governance Panel in 2011. The covering report presented to the Panel noted that management was already considering the issues and recommendations within the Audit Scotland report. For example, that management was working to comply with the Society of Chief Officers of Transportation in Scotland (SCOTS) timeline for developing a complete roads asset management plan (RAMP) in place. No update paper has been provided to demonstrate that these recommendations have been addressed.

108. The Council has a suite of key performance indicators on roads maintenance which are regularly monitored and reported. The Council sets out its plan on road maintenance activities in its Environmental Services Service plan. The Plan details key service actions, lead officer and timescales. In addition, risks are monitored through the departmental risk register. The Environmental Service Plan shows performance against a set of key performance indicators (KPIs), reporting performance on both the current and previous year's results.

109. In 2008, SCOTS set out a four year timeline by which time all councils were required to have a complete roads asset management plan (RAMP) in place. To enable this timetable to be met all councils were required to have a rudimentary plan place by 2011 and a completed RAMP in place by the end of 2012/13. North Lanarkshire Council has had a draft RAMP in place since 2010. However, the RAMP has not been updated since this time.

110. In late 2010 SCOTS issued guidance to all councils setting out core and secondary indicators in areas such as customer service, network condition and finance. SCOTS plans to collect this information annually but recognised that councils did not have systems in place to support the compilation of all indicators. However, as a minimum, councils were expected to complete information relating to the core performance indicators. To date (September 2012), the Council is reporting on 90% of the SCOTS core performance indicators.

111. The Council has achieved significant savings through the establishment of a joint venture company. A joint venture was established in December 2010 with Amey Public Services LLP under an agreement whereby the company assumed responsibility for the Council's roads and lighting maintenance contract works. The Council estimates that the retendered contract has already delivered savings of approximately £700,000.

112. Our report identified two action points for the Council to address, both of which we graded as being moderate risk for the Council. The first was that the Council should ensure that its RAMP is integrated into standard practices with formal periodic reviews and updates. The second recommendation was that the Council must resolve the issues which are preventing it reporting on the core performance indicators identified by SCOTS.

Governance

113. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the chief executive and section 95 officer, the Council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance in monitoring these arrangements.

Overall Governance Arrangements

114. We have reviewed the Council's overall governance arrangements, including a review of the key committee structures and composition, internal audit and risk management. The Council is supported through a range of committees and sub-committee. These include service committees overseeing the performance and delivery of individual services. The Scrutiny Panel monitors performance at a corporate level including the delivery of the Corporate plan. The Audit and Governance Panel monitor the risk management framework in place at the Council as well as making recommendations to the Policy and Resources Committee on any issues arising from the preparation and auditing of the financial statements. Overall we found that an appropriate governance framework is in place.

Changes in governance structure

115. There has been limited change to the overall governance structure during the year. Following the local council elections, the Policy and Resources (Regeneration and Infrastructure) sub-committee has been established. This was the amalgamation of the Regeneration committee and Policy and Resources (Property and Design) sub- committee. The balance of the remit of the former Property sub-committee has been transferred to the Corporate Services committee to align better with the management structure as Design and Property Services is a division of Corporate Services.

116. The revised governance structure is more aligned to the Council's management structure with the remit for the committees reflecting the roles and responsibilities of the relevant areas of the organisation. This should facilitate a greater level of challenge and scrutiny of services activity through a clearer reporting and monitoring structure.

Scrutiny and challenge

117. The role of the Audit and Governance Panel is to review and monitor the Council's risk management framework and the associated oversight environment. The Panel is responsible for scrutinising relevant aspects of the Council's financial and non-financial performance and considering issues arising from the process of drawing up, auditing and certifying the Council's annual accounts. CIPFA best practice[1] outlines that to be effective the Panel needs to be

[1] CIPFA: Audit Committees : *Practical Guidance for Local Authorities*, 2005

independent from the administration, to enable effective challenge and scrutiny. In particular, the Audit and Governance Panel and scrutiny chairs should not be members of the administration. In North Lanarkshire Council we have observed robust challenge and scrutiny in the work of the panel although the Panel is chaired by a member of the administration and we do not have a concern regarding the effectiveness of the Panel's membership.

118. CIPFA's six principles of corporate governance within local authorities[2] outline the importance of ensuring that decisions are subject to effective scrutiny. One of the roles of the Audit and Governance Panel is to provide scrutiny of aspects of the Council's financial and non-financial performance. To enable the Panel to discharge its functions effectively there must be sufficient scope for effective challenge of management. We observed that in a number of panel meetings there was limited attendance from management and therefore limited scope for the Panel to fully challenge management. Furthermore, the remit of the Panel does not clearly outline responsibilities in relation to oversight of the systems of internal control. While we are satisfied that the Panel does undertake this activity this should be clearly articulated within the panel's remit.

Action Plan Point 6

Impact of the elections

119. Audit Scotland[3] highlighted that '*elected member training and development will be required to support members in a quickly changing environment…(they) will need to get up to speed quickly and understand what being an elected member involves, including where they are asked to serve on audit and scrutiny committees and take on roles in external organisations'*.

120. Following the Local Government Elections in May 2012, 33% of North Lanarkshire Council was made up of newly elected members. This represents a significant change in the make-up of the Council and subsequently membership of the supporting committees and sub-committees. With such a substantial change it is essential that newly elected members have appropriate skills and understanding to enable them to serve as effectively as possible.

121. In response to this change, the Council offered elected members an induction programme spread over four days together with a number of both general and focused training events.

122. The Council has also prepared personal development plans (PDP) for all elected members and these will be subject to review every six months. This is supported through a series of notebooks for members developed in conjunction with the Improvement Service and COSLA. The focus of the PDPs is on the individuals training needs and requirements. While there is comprehensive monitoring of attendance at training and development events, the onus is on the elected members to understand their own training needs and to attend all relevant courses.

[2] *Delivering Good Governance in Local Government: Guidance note for Scottish Local Authorities*, CIPFA, 2008

[3] Audit Scotland: *Overview of Local Government in Scotland*, 2012

Systems of Internal Financial Control

123. To comply with the requirements of International Standards on Auditing (ISAs) and to facilitate an efficient audit, we have considered the Council's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the internal controls over the accounting systems to be generally well designed and operating effectively.

124. While we identified a number of minor control weaknesses within our interim management report we have not identified any significant control weaknesses.

Risk Management

125. During our interim audit we carried out a high level review of the Council's risk management arrangements. The Audit and Governance Panel has overall responsibility for ensuring that the risk management framework and oversight environment in the Council is robust. The Policy and Resources committee receive updates on Corporate Risks. A Corporate Risk Register is in place which is underpinned by local service level risk registers. We have confirmed that all the services within the Council have their own risk registers, and that risk is explicitly considered by officers during the service planning process at the beginning of the year.

126. Overall, risk management arrangements at the Council appear robust. However, there does not appear to be a comprehensive programme of training on risk management across the Council. It is essential that services are engaged in the risk management process and have the adequate skills and experience to identify potential risks. We recommend that risk awareness training is rolled out across the Council.

Action plan point 7

Prevention and detection of fraud and irregularity

127. The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. In general we found that the Council's arrangements for the prevention and detection of fraud and other irregularities were sufficient.

NFI

128. The National Fraud Initiative (NFI) is a counter-fraud exercise undertaken by Audit Scotland in conjunction with the Audit Commission, external auditors and a number of public sector bodies including North Lanarkshire Council. Participating organisations are required to submit a range of data, such as payroll, pensions, benefits and creditors data, to a central database where it is matched up in order to identify potential frauds. In 2012, Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £78million, with £19.8 million of that relating to the 2010/11 exercise.

129. The Audit and Governance Panel receive periodic reports on the Councils NFI work. By May 2012 the Council had completed reviewing the prioritised matches from the 2010/11 exercise. At

that time £384,000 of overpayments had been identified through the 2010/11 exercise and recovery of these amounts was in progress.

130. The previous external auditors deemed the Council's approach to the 2010/11 NFI exercise to be satisfactory, with little or no scope for improvement. With arrangements set to remain consistent for the upcoming 2012/13 exercise there have been no areas of concern identified through our audit work to date.

131. Submission of data for inclusion in the 2012/13 NFI exercise is due on 08 October 2012 with matches scheduled for release to participants in January 2013. The Council has already considered which non-mandatory data sets will be submitted for the 2012/13 exercise. We will report on the Council's participation in the 2012/13 NFI exercise in future audit reports.

Standards of conduct and the arrangements for the prevention and detection of bribery and corruption

132. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

133. We are pleased to report that our audit identified no issues of concern in relation to standards of conduct and the prevention and detection of corruption.

Looking forward

Community Healthcare and Social Care Partnerships

134. On 8 May 2012 the Scottish Government released a formal consultation document on the integration of health and social care services for older people. It has been proposed that Community Healthcare Partnerships be replaced by Community Health and Social Care Partnerships (CHSCPs). The Government's proposals state that CHSCPs will be the joint and equal responsibility of the Health Boards and Local Authorities and will be accountable, via the Chief Executives of the Health Boards and Local Authority, to Ministers, Local Authority Leaders and Health Board Chairs. CHSCPs will require integrated budgets which will be overseen by a Jointly Accountable Officer, appointed by both parties. The Jointly Accountable Officer will report to the two Chief Executives and through them to a Partnership Committee, which will be a joint committee of the Local Authority and the Health Board. Voting members of the Partnership Committee will be made up of an equal number of Health Board Non-Executive Directors and local elected members.

135. The proposed legislation could have significant implications for the Council. On 4 September 2012 the Council reported a draft response to the consultation. Whilst the Council generally supports the intended outcomes of the proposed policy there is some concern that the proposed organisational arrangements may not be suitable in its case. The response notes that:

- North Lanarkshire Council operates across two Health Board areas. The proposals do not address the additional challenges this may pose.
- There is concern over the accountability of the Jointly Accountable Officer;
- Current standing orders and financial regulations would not allow the delegated authority required in the proposed approach.
- The budget of an integrated Community Health and Social Care Partnership could potentially be larger than the remaining Council functions put together, whilst attracting less scrutiny than currently takes place.
- There is concern over the proposed governance structures and the role afforded to the elected members.
- It is strongly felt that nationally imposed structures and arrangements may not give the most appropriate outcomes for individual localities.

136. We will maintain a watching brief on the Scottish Governments proposals on integration and the implications on / responses from the Council.

Appendix 1: Action plan

Our management report action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Action plan grading structure

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Red	Important weaknesses and/or significant deficiencies which management needs to address and resolve urgently.
Amber	Weaknesses which require prompt but not immediate action by management.
Green	Less significant issues and/or areas for improvement which do not require immediate management action.

Issues arising from our 2011/12 audit

Action Plan Point	Para Ref	Recommendation and Rating	Rating	Management comments	Responsible Officer	Agreed Completion Date
1.	48	**Asset records** We identified a number of items on the register where it was not initially clear what asset or assets the item represented. From further investigation we identified that assets with a value of £7.2 million represented an estimated carrying value for the level of fittings and equipment within the school estate. There is a risk that the Council does not account for these assets fully in accordance with International Accounting Standard 16: Property, Plant and Equipment. We recommend that the Council review and if necessary revise the basis for accounting for such assets prior to the preparation of the 2012/13 financial statements.	**Amber**	The Council's accounting treatment for these assets is long-standing (the basic approach and methodology being inherited from the former Strathclyde Regional Council) and this approach has previously been accepted by the Council's former appointed auditors. Management are content however to revisit the issue and the Council will work with our external auditors to review and if necessary revise the basis for accounting for such assets prior to the preparation of the 2012-13 accounts.	Head of Financial Services	31 March 2013

Action Plan Point	Para Ref	Recommendation and Rating	Rating	Management comments	Responsible Officer	Agreed Completion Date
2.	55	**Governance arrangements** The Council should obtain assurance statements from the executive heads of each of group entities confirming the adequacy and effectiveness of internal controls and governance arrangements to enable the Council to have adequate assurance over the adequacy of these.	**Amber**	The Council will obtain annual assurance statements on the governance system in place within such bodies and their effectiveness from the respective Chief Executives.	Executive Director of Finance and Customer Services	May 2013
3.	98	**Performance measures** The Council should review current arrangements to ensure that future performance information collected and reported is complete and accurate.	**Amber**	The Council will as part of its normal management arrangements reflect on issues arising during the 2011-12 audit process and ensure that any lessons learned are properly reflected in the management arrangements for producing SPIs and KSMs in 2012-13.	Corporate Service Improvement Manager	November 2012
4.	100	**Public Performance Reporting** We reviewed a number of improvement actions linked to the annual performance report 2010/11 and identified a small number of actions did not have clear targets and timescales attached. The Council should ensure that when actions are detailed clear timescales and projected outcomes are clearly stated.	**Green**	The Council will ensure, where appropriate, that clear timescales and projected outcomes are indicated when actions are highlighted in public performance reports.	Corporate Service Improvement Manager	November 2012

Action Plan Point	Para Ref	Recommendation and Rating	Rating	Management comments	Responsible Officer	Agreed Completion Date
5.	101	**National performance reports** Where relevant the Council identifies how it is addressing or will address the issues raised by Audit Scotland in its national performance reports. We consider however that the management responses could often be more specific. The Council should consider including specific planned actions, timescales and responsible officers to better enable the Audit and Governance Panel to monitor the Council's response to Audit Scotland's national performance reports.	**Green**	The Council will ensure that all future reports submitted to the Audit and Governance Panel containing management responses to issues and/or recommendations made by Audit Scotland in national performance reports will, where appropriate, provide more detail of specific planned actions, timescales and responsible officers.	Audit Manager	November 2012
6.	118	**Effective challenge** The remit of the Audit and Governance Panel does not clearly outline responsibilities in relation to oversight of the systems of internal control. While we are satisfied that the Panel does undertake this activity this should be clearly articulated within the Panel's remit.	**Green**	We will amend the approved terms of reference of the Audit and Governance Panel which does currently omit specific reference to internal control. This omission appears to be an administrative error and we note that the auditors recognise that the Panel's current activities do already fully address this important element of the work of any audit committee.	Executive Director of Finance and Customer Services	November 2012

Action Plan Point	Para Ref	Recommendation and Rating	Rating	Management comments	Responsible Officer	Agreed Completion Date
7.	126	**Risk management** There does not appear to be a comprehensive programme of training on risk management across the Council. It is essential that services are engaged in the risk management process and have the adequate skills and experience to identify potential risks. We recommend that risk awareness training is rolled out across the Council	**Green**	The Council will, following the approval of the revised corporate risk management strategy in September 2012, put in place arrangements to ensure risk management training is cascaded throughout the Council.	Executive Director of Finance and Customer Services	December 2012

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