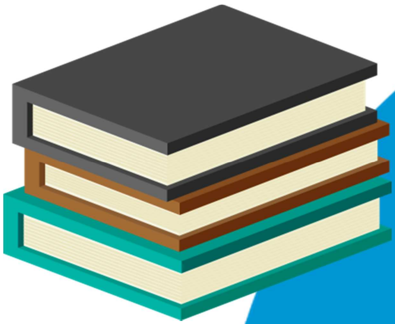
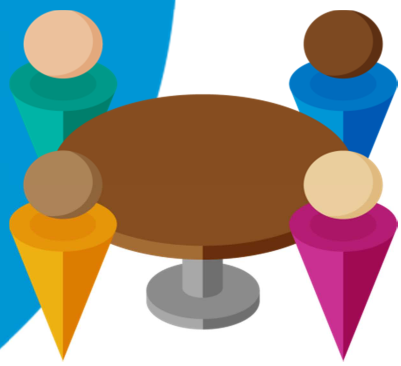


North Lanarkshire Council

External Audit Annual Report 2012/13 to the Council and the Controller of Audit

September 2013



Scott-Moncrieff
business advisers and accountants

North Lanarkshire Council

External Audit Annual Report 2012/13 to the Council and the Controller of Audit

Executive Summary

Financial statements

We are pleased to confirm that our independent auditor's report contains an unqualified audit opinion on the annual accounts for the year ended 31 March 2013. We certified that the financial statements have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

We have however drawn attention in our independent auditor's report to the fact that the Land Management and Fleet Operations significant trading operations have failed to break even, on a cumulative basis, over a three year period. This arose as a result of costs of restructuring incurred by both significant trading operations. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements.

The financial statements and supporting schedules prepared by the Council were of a good standard. Our thanks go out to all management and staff at the Council for their co-operation and assistance during our audit.

Use of resources

The overall level of cash backed reserves held by the Council increased by £31.883 million compared to the previous year and totalled £103.506 million. This movement was largely attributable to an increase in the general fund. The general fund balance brought forward at 1 April 2012 of £51.657 million increased to a cumulative net surplus of £79.300 million at 31 March 2013. Of the £79.300 million general fund balance, £51.950 million has been earmarked for specific purposes. The unallocated general fund balance of £27.350 million is above the £12 million approved reserve level. Members are aware of the additional resources available and over the coming months will consider how best to use these.

Actual capital expenditure for 2012/13 was £120.688 million (comprising both general fund and HRA). The Council carried forward £8.790 million on the general fund composite capital programme. The Council has approved its 2013/18 composite general fund capital programme. The plan forecasts investment of £344 million over the five year period. As part of the Schools and Centres 21 Programme, the Council envisage that two school campuses, Clyde Valley and Greenfaulds High Schools, will be developed through the hub South West projects. These projects are both in their infancy but the Council expect the projects to be complete either late 2015, early 2016.

To address the budget requirements for the period 2013/14 to 2015/16, the Council has agreed a three year savings package of £62.4 million. Savings are expected to generated, over the next three years, in workforce arrangements, asset management, procurement, service prioritisation and income generation.

Looking forward, the Council intends to externalise its commercial property portfolio thereby generating a significant capital receipt. The primary purpose for generating this capital sum is to allow the Council to meet a number of financial challenges in the short to medium term.

The Council is no longer involved in the Clyde Valley Shared Support Services project. This decision was taken following Council consideration of the revised business case. The Council does however continue to lead on the shared procurement exercise for waste treatment and disposal. The Council also continues to participate in the social transport project.

Performance

During the year, the Council refreshed its key strategic documents. The North Lanarkshire Partnership revised the Community Plan and SOA and brought these together into one document, '*North Lanarkshire Partnership Community Plan 2013-18'*. The Council also reviewed its Corporate Plan during the year to ensure it continued to demonstrate the Council's role in delivering the Community Plan (SOA).

The Council's Annual Performance Report highlighted mixed performance compared to the prior period. In total 44% of indicators recorded poorer performance in 2012/13 than in 2011/12. Overall performance however, is broadly in line with the Council's expectation with 90% either achieving or exceeding target.

Governance

Our work on corporate governance focussed on reviewing the Council's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. We are pleased to report that, in our opinion, the governance arrangements at the Council are appropriate and in line with our expectation.

As part of our review we considered the Council's governance and scrutiny arrangements in place over its Arms-Length External Organisations (ALEOs). We found that while the Council has developed comprehensive assurance monitoring arrangements over its ALEOs it could improve its arrangements over the renewal of funding agreements. We also selected a sample of organisations in which the Council has an interest and reviewed the funding arrangements to ensure compliance with the Code. For those organisations sample tested, we concluded that the Council has complied with the principles of the Code.

Conclusion

This report concludes our audit of North Lanarkshire Council for 2012/13. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Executive Director of Finance and Customer Services and members of the Council's management team. We would like to thank all management and staff at the Council for their co-operation and assistance during our audit.

Scott-Moncrieff

September 2013

Introduction

1. This report summarises the findings from our 2012/13 audit of North Lanarkshire Council. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Audit and Governance Panel at the outset of our audit.

2. The main elements of our work in 2012/13 have been:

   - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
   - An audit of the financial statements, including a review of the annual governance statement;
   - A review of governance arrangements, internal controls and financial systems;
   - An appraisal of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
   - An assessment 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 the Whole of Government Accounts return (WGA).

   The key issues arising from our work are summarised in this annual report.

3. 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

4. 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 issues arising from our audit of the 2012/13 financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

5. Our independent auditor's 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 25 September 2013 and is unqualified. We certified that the financial statements have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

6. We have however drawn attention in our independent auditor's report to the fact that the Land Management and Fleet Operations significant trading operations have failed to break even, on a cumulative basis, over a three year period (paragraph 26). This arose as a result of costs of restructuring incurred by both significant trading operations. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements.

7. The information given in the Explanatory Foreword is consistent with the financial statements. In addition, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985.

8. We are also satisfied that the Governance Statement complies with *Delivering Good Governance in Local Government*.

9. North Lanarkshire Council is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulations 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 this deadline.

10. 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 access to the unaudited accounts during the inspection period. The nature of the objection has not impacted on our overall opinion on the financial statements.

11. 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 statement of accounts

12. The financial statements should be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). The Code specifies the principles and practices of accounting required to prepare a statement of accounts which give 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.

13. As part of our 2012/13 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.

Responsibility for the statement of accounts

14. 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 2012/13 Code. This means:

- Preparing financial statements which give a true and fair view 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.

Auditor responsibilities

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

- Whether they give a true and fair view, in accordance with applicable law and the 2012/13 Code of the state of affairs of the group and of the Council and of the income and expenditure of the group and the Council 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 2012/13 Code;
- Whether they have been properly prepared in accordance with the requirements of 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.

16. 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

17. International Standards on Auditing (UK & Ireland) 260, "*communication 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. We can confirm that we have complied with the Auditing Practices Board's (APB) 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

18. 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.

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

Internal Audit

20. Internal audit is a key component of the Council's corporate governance arrangements. At North Lanarkshire Council, the internal audit service is provided by an in-house team.

21. In accordance with International Standards on Auditing 610 – "*Considering the work of internal audit"*, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment." During the year we have carried out a review of the internal audit function. In carrying out our review we have assessed the internal audit function against the standards within the Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code). This review was informed by a self-assessment carried out by the Internal Audit Manager in the year.

22. Overall we concluded that the Council's internal audit section demonstrates a high degree of compliance with the Code's requirements and is a service which we can place reliance on. To avoid duplication of effort and to ensure an efficient audit process we have made use of internal audit work where appropriate. We are grateful to the internal audit team for their assistance during the course of our audit work.

Key areas of audit focus and significant findings

23. We are required by international standards on auditing 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

24. 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.

25. North Lanarkshire Council currently operates five STOs. Overall, the STO's reported a combined surplus of £1.313 million for 2012/13 (2011/12: £0.581 million combined surplus).

26. There are however two STOs; Land Management and Fleet Operations which have failed to breakeven over a three year rolling period with cumulative deficits of £0.395 million and £0.146 million respectively. This is due to exceptional one off costs associated with redundancy in previous years.

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 2013 in respect of the Land Management and Fleet Operations significant trading operations. We have reported this in matter in our independent auditor's report.

28. In June 2013, LASAAC issued guidance on STOs. This guidance provided details of the conclusions of the 'Trading Operations Review Group' (TORG) which was established to undertake a post-legislative review of implementation practices. The guidance recommends that the identification of an STO should focus only on those services or activities which are external to the 'single entity' local authority and which are not statutory in nature. The Council is currently reviewing the identification and classification of its STOs in light of this guidance.

Property, plant and equipment records

29. The Code requires all classes of assets (with the exception of infrastructure, community assets or assets under construction) to be measured at fair value[1]. Where assets are held at fair value, they should be revalued at intervals of no more than five years. Valuations may be carried out on a rolling basis or once every five years. North Lanarkshire Council has adopted a five year rolling valuation programme for its operational land and buildings.

30. During our audit we identified a number of assets that had not been subject to formal valuation (£16.696 million). Of this balance £8.687 million related to assets that were incorrectly categorised in the fixed asset register as operational land and buildings and are not required to be revalued. The remaining balance of £8.009 million should have been subject to revaluation within the last five years. This value however is considered immaterial in the context of the Council's non-current asset base of £2.1 billion. The Executive Director of Finance and Customer Services has given representation that these assets are not materially misstated in the financial statements.

31. The Council currently use a fixed assets module within the e-financials ledger system to maintain a record of all property, plant and equipment. These records are used in the preparation of the financial statements and are separate to the property records maintained by the Council's Property Services which are used to inform the annual revaluation programme. Three years ago, an exercise was carried out to reconcile the records held on both systems. Since then, the accounting team has carried out an annual exercise to match the records held by Property Services to those recorded on e-financials. This exercise however does not identify those assets recorded on e-financials but not held by Property Services.

Action Plan Point 1

Valuation of property, plant and equipment

32. The 2012/13 Code: "Guidance Notes for Practitioners", outline the roles and responsibilities in relation to the recognition and valuation of property, plant and equipment. It is the valuer's responsibility to ensure that any valuations are undertaken in accordance with relevant professional standards and practice. The

[1] Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms-length transaction. Fair value is interpreted as the amount that would be paid for the asset in its existing use.

chief financial officer is responsible for ensuring that the relevant assets are subject to revaluation. At North Lanarkshire Council, properties are valued by an in-house valuer.

33. Arrangements are in place for the valuations to be uploaded onto the accounting team's fixed asset register. We noted however that the valuation information uploaded does not include the valuation date. Such information may assist the accounting team in identifying those assets that are scheduled for valuation in any one year. We also noted that the accounting team does not receive a valuation report for each asset valued or an overarching valuation report. As outlined in the Guidance Notes for Practitioners, a 'valuation report gives the valuer's opinion of value of the specific properties, stating what has been done and what has not been done, the basis of valuation, any assumptions which have been made, including those on the accuracy of data'. An overarching valuation report would cover matters such as:

- The process used to arrive at the estimate of the remaining useful life of individual properties;
- The valuer's proposed strategy for the rolling programme of valuation reviews;
- The arrangements for implementing the rolling programme; and
- The proposals for carrying out additional and ad hoc valuations.

Action plan points 2-3

Retirement benefits

34. Like other local authorities, the Council has reported a significant local government pension fund liability within its 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 pension liability increased significantly during the year, from £276.908 million as at 31 March 2012 to £363.008 million as at 31 March 2013.

35. The main reason for the increase has been the reduction in the discount rate assumption from 4.8% to 4.5%. 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.

36. We have reviewed the accounting treatment on the net pension liability and are satisfied that this has been recognised appropriately within the financial statements.

Group accounts

37. The 2012/13 Code requires North Lanarkshire Council to prepare group accounts, consolidating all entities in it has a controlling interest.

38. During 2012/13, the Council reviewed its relationship with North Lanarkshire Leisure Limited (NLL) and Routes to Work Limited (RTW). The Council concluded that the relationship between the Council and NLL is that of a subsidiary. This relationship has previously been consolidated within the group accounts as an associate. Consequently, NLL's transactions and balances have been fully consolidated within the group accounts as a subsidiary. The relationship between the Council and RTW is considered that of an associate and the group accounts subsequently reflect the Council's share of the assets and liabilities of RTW on that basis.

39. The 2011/2012 accounts have been restated to recognise the outlined changes regarding NLL and RTW. The impact of recognising NLL and RTW in the prior year accounts was a net reduction in the group surplus of £0.417 million. The impact of the prior year adjustment is not considered material to the group financial statements.

40. Overall we concluded that the Council has consolidated its interests in group entities in accordance with the Code.

Equal pay

41. The Council has recognised in its financial statements 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 £12.398 million at 31 March 2012 to £9.073 million. This is due to payments of £3.325 million during the year. At 31 March 2013 the Council had approximately 1,200 live equal pay claims outstanding (at 31 March 2012 there were approximately 7,099 cases outstanding).

43. Following legal advice and consideration of case law, the Council took the decision to settle a number of claims that it considered being at high risk of adverse future settlement. The agreements reached in the current year are based on the amounts for which the Council had budgeted for within its financial plans.

44. The Council is aware of potential additional liabilities in respect of pay protection. As yet, no provision has been made for these potential liabilities as there remains a significant degree of uncertainty over both the potential costs and the possible legal process associated with these claims that may commence in future years.

Charitable trust funds

45. The Council holds a total of 36 sundry trust funds, 12 of which are registered with the Office of the Scottish Charity Regulator (OSCR). The total sundry trust fund balance amounts to £104,126 of which £37,170 relates to the registered charitable trusts.

46. The Council propose to consolidate all sundry 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.

47. The Council has continued to discuss this with OSCR. However given the existing conditions attached to these funds and their relatively small value this has proved challenging and little progress has been made since 2011/12.

Action Plan Point 4

Audit arrangements for local authority charities

48. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. These are generally based on size of the organisation and ranges from an independent examination for smaller charitable bodies to a full audit. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. Each registered charitable fund will require a full audit from 2013/14.

49. The Accounts Commission has concluded that the most suitable approach to ensure compliance with the Charities Accounts (Scotland) Regulations 2006 is to appoint, from 2013/14, the Council's external auditor to conduct the audit for its charitable trusts.

Revenue recognition

50. International Standards on Auditing 240: "*the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*" specifies that material misstatements due to fraudulent financial reporting often result from the misstatement of revenues. Therefore, there is a presumed risk of fraud in revenue recognition. As auditor, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

51. During our audit, we considered which types of revenue, revenue transaction or assertions may give rise to the risk of material misstatement due to fraud. Our assessment was informed through testing of the design, implementation and operating effectiveness of relevant control procedures during the year, as well as focussed substantive testing over revenue sources. Satisfactory assurance was gained in respect of the completeness and occurrence of revenue transactions in the year.

Management override

52. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.

53. We have reviewed the accounting records for significant transactions outside the normal course of business and have obtained, where applicable, supporting evidence to ensure that such transactions (if any) are valid and accounted for correctly. Overall we identified no evidence of management manipulation of accounting records.

Audit adjustments and unadjusted items

54. We identified no major errors or weaknesses during our audit. Audit adjustments made to the Council's draft financial statements have been reported to the Executive Director of Finance and Customer Services. The adjustments, in aggregate, reduced the general fund balances by £2.670 million to recognise a provision for landfill restoration costs following the issue of LASAAC guidance on 4 June 2013.

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

Management representations

56. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

Qualitative aspects of accounting practices and financial reporting

57. During the course of our audit, we considered the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	**We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Council.**
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	**Significant accounting estimates or judgements have been disclosed in the financial statements. We consider these to be appropriate to the Council.**
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	There are no uncertainties, including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	**From our testing performed, we identified no unusual transactions in the period.**
Apparent misstatements in the Explanatory Foreword or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the Explanatory Foreword.
Any significant financial statement disclosures to bring to your attention.	**There is no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.**
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	**There were no difficulties encountered in the audit.**

Use of Resources

The Council's financial performance in 2012/13

58. The overall level of cash backed reserves held by the Council increased by £31.883 million compared to the previous year and totalled £103.506 million. This movement was largely attributable to an increase in the general fund. The general fund balance brought forward at 1 April 2012 of £51.657 million increased to a cumulative net surplus of £79.300 million at 31 March 2013.

Source: North Lanarkshire Council Annual Accounts 2012/13	**2012/13 £million**	**2011/12 £million**	**Movement £million**
General Fund	**79.300**	**51.657**	**27.643**
Housing Revenue Account	8.868	6.275	2.593
Capital Fund	**1.429**	**1.429**	**-**
Capital Grants Unapplied Account	1.343	1.225	0.118
Insurance Fund	**11.602**	**10.415**	**1.187**
Repairs and Renewals Fund	0.964	0.622	0.342
TOTAL	**103.506**	**71.623**	**31.883**

59. Of the £79.300 million general fund balance, £51.950 million has been earmarked for specific purposes (refer to table below). This represents 66% of the general fund balance (in 2011/12, earmarked balances represented 76% of the general fund balance). This level of general fund balance is in line with the 2011/12 national position. The Accounts Commission overview report[2] in 2011/12 reported that "*the earmarked element represents 63% of the amounts held in general funds, broadly in line with previous years*". The level of earmarked reserves has increased by 31% (£12.293 million) in comparison with the previous year. Earmarked balances include £6.5 million of budget commitments from 2012/13 to be carried forward and used in 2013/14.

60. The unallocated general fund balance of £27.350 million is above the £12 million approved reserve level. The remaining £15.350 million unallocated balance largely arose from savings achieved during the year in areas such as employee costs and external borrowing. Members are aware of the additional resources available and over the coming months will consider how best to use these. Given the significant level of savings to be achieved over the next three years, the Council will need to ensure that it maximises the use of these unallocated resources.

61. The Council agreed a two year savings package of £55.223 million in 2010 of which £25 million was to be achieved in 2012/13. The Council achieved its revised savings target (£23.1 million) in the year. This was achieved through efficiencies, cost reductions and income generation.

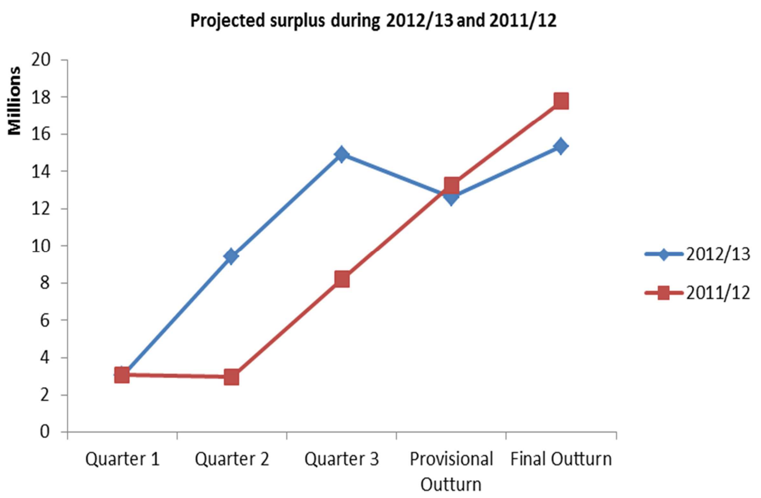
[2] 'Responding to challenges and change – An overview of local government in Scotland 2013' Audit Scotland March 2013

Source: Financial outturn reports presented to Policy & Resources (Finance and Customer Services) Sub-Committee 2011/12 and 2012/13	2012/13 £million	2011/12 £million	Movement £million
Change management	**19.474**	**21.252**	**(1.778)**
Youth employment	4.909	1.700	3.209
Devolved school management	**4.815**	**4.705**	**0.110**
Waste management	2.741	2.025	0.716
Dilapidations	**0.872**	**1.000**	**(0.128)**
Externalisation of commercial properties	3.000	0	3.000
Work employability programmes	**2.320**	**3.771**	**(1.451)**
Police reserves due to Scottish Government	3.384	0	3.384
Winter Maintenance	**1.171**	**1.171**	**-**
Youth Games	0.204	0.239	(0.035)
2013/14 budget commitments	**6.500**	**0**	**6.500**
Other approved carry forward	2.560	3.794	(1.234)
TOTAL	**51.950**	**39.657**	**12.293**

Budget Monitoring and Control

62. Financial performance is monitored at a service level by the relevant service committee. The consolidated Council position is monitored by the Corporate Management Team and the Policy and Resources (Finance & Customer Services) Sub-Committee. Financial performance reports contain details of variances between the annual budget and projected outturn and report the projected surplus/deficit for the year. A summary of earmarked funds is reported to the Policy and Resources (Finance & Customer Services) Sub-Committee at the year-end. We noted that management has highlighted to elected members the movement on certain earmarked reserves during the year, such as the £6.5 million budget commitments and the £3 million on externalisation of commercial properties. This information however has not been reported for all movements on earmarked funds. Management may wish to consider including an additional reference in its financial performance reports on all transfers to/from earmarked funds during the year.

Action Plan Point 5



Source: financial performance reports presented to the Policy and Resources (Finance & Customer Services) Sub-Committee during 2011/12 and 2012/13 (Council summary reports).

63. Over the last two years, the Council has reported a surplus against its annual budget (2012/13 £15.350 million, 2011/12 £17.776 million). In the financial statements, these surpluses equate to the unallocated balances in excess of the approved reserve level of £12 million. In 2011/12, the Council agreed to earmark these balances towards its change management programme. Savings associated with employee costs and external borrowing costs have contributed to the surpluses in both years (2012/13 £9.026 million, 2011/12 £12.3 million). Savings have been achieved earlier than the annual planned savings programme. The Council should consider making changes to its budget to reflect the earlier phasing of savings achieved.

Action Plan Point 6

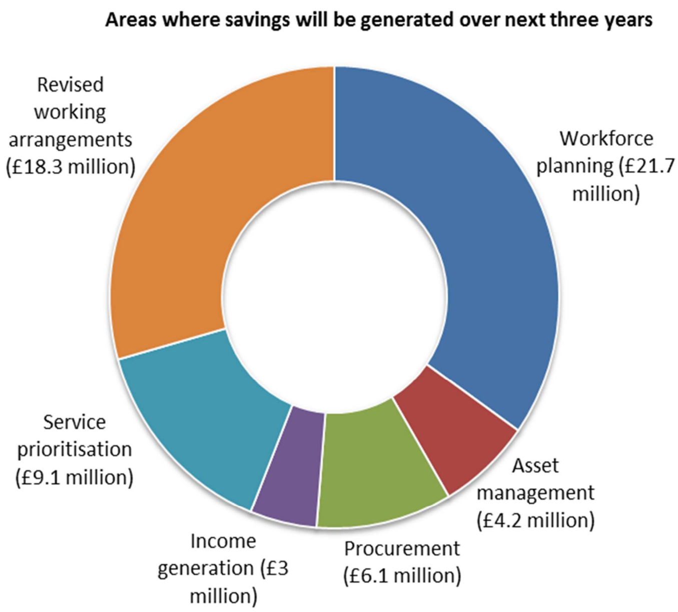
Future financial projections

64. In October 2011, the Council developed a ten year financial plan covering the period 2012/13 to 2021/22. The purpose of the plan was to identify the financial pressures and level of savings required over the ten year period. It was designed to provide scope for the Council to continue to support the strategic priorities outlined within the corporate plan while remaining financially sound.

65. The plan identifies cost pressures of over £300 million over the ten year period. The most significant of these relates to employee costs and the potential impact of inflationary increases on contract costs. The Council also identified social and demographic changes as a key cost pressure. The Council forecast that over the next ten years the local population will rise by 2.5% with a 50% increase in the population above 75 years old. In contrast, the working age population is forecast to contract by 8% over the same period. This will put significant strain on the Council's resources, in particular in the provision of health and social care services. In 2013/14 the Council's financial plans assume that demographic changes will result in additional budgetary pressures of £2.3 million and that this will rise to £8.5 million by 2021/22.

66. The Council has based the financial plan on best available information at the time of preparation. It recognises that there are considerable areas of uncertainty over the life of the plan including, for example, the impact of future spending reviews, the potential impact of the independence referendum and the impact of future local government elections. The ten year plan will be subject to regular review to ensure that it remains an accurate estimate of future financial position.

2013/14 – 2015/16 savings package



67. To address the budget requirements for the period 2013/14 to 2015/16, the Council has agreed a three year savings package of £62.4 million. A draft package of savings options totalling over £105.7 million was presented to the Council's Policy and Resources Committee in December 2012. The Council consulted with staff and the local community. There were no new, major savings options identified following the consultation exercise.

Service and People First

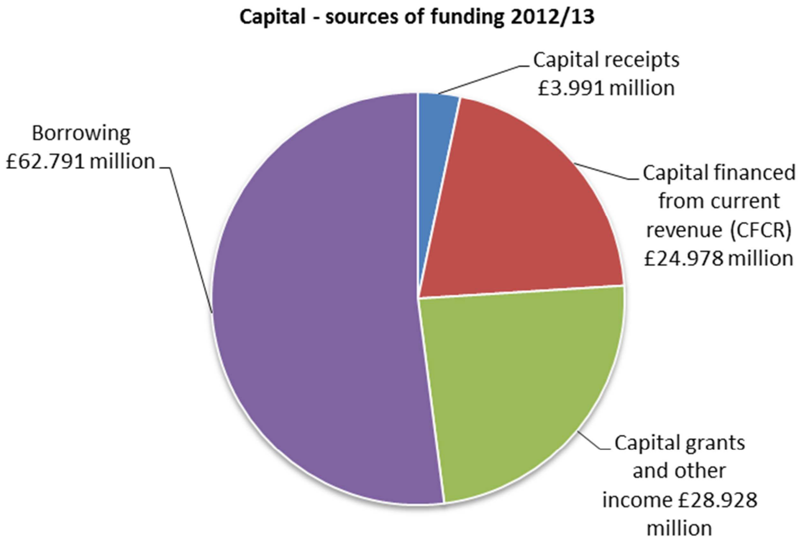
68. The Council's Service and People First Transformation Programme aims to co-ordinate all Council improvement activity within an overarching strategy. The programme reached the end of its initial five year time frame at the end of March 2012. Since it was introduced in 2007, the programme has helped deliver £78.5 million of savings, significantly exceeding the original target of £50 million[3].

69. In June 2013, a report was presented to the Policy and Resources Committee setting out how to progress with the Service and People First Transformation Programme to enable the Council to address the financial challenges over the next three years. A member/officer board will be created, acting as an interface between the Policy and Resources Committee and the Corporate Management Team (CMT). The board will be responsible for overseeing the development of new work streams, monitoring the progress on the programme and considering report from the short life member/officer task groups which have explored the potential to secure improvement in specific service areas.

Workforce change

70. The delivery of the targeted £62.4million savings target over the next three years will require significant changes in how services are delivered. Like most public bodies, the majority of costs incurred by the Council relate to workforce. Consequently, to achieve the targeted level of savings, significant reductions in workforce are required. The Council anticipate approximately £21 million savings will be generated from workforce planning over the three year period. This equates to a reduction of 429 FTE. In addition the Council forecast a further reduction of 315 FTE through the other proposed work streams (for example, service prioritisation and revised working arrangements).[4] At the end of 2012/13, the Council's workforce comprised 13,204 FTE. The Council has established a change management fund to meet the costs associated with voluntary redundancy and early retirement. With the significant reductions in workforce, the Council may find it challenging to maintain or improve the existing standard of service delivery.

[3] Source: Police and Resources Committee report 'Service and People First – Future Direction' June 2012
[4] Source: Policy and Resources Committee report 'Service and People First' June 2013



Capital performance

71. Actual capital expenditure (general fund and HRA) for 2012/13 was £120.688 million[5]. Investment during 2012/13 included £28.964 million in schools, £5.700 million in leisure facilities and £3.041 million in social work facilities. In addition, £12.392 million was invested in the on-going upgrade of the roads, lighting and infrastructure networks, £3.188 million in cemeteries and £5.190 million to improve town centres and other economic regeneration projects. Investment in council dwellings and other HRA properties amounted to £40.356 million and expenditure on the Council's new build council dwelling programme was £10.050 million. The capital programme was funded as shown above. The final outturn position reported the Council carried forward £8.790 million on the general fund composite capital programme.

Future composite capital programme (general fund)

72. In February 2013, the Council approved its 2013-18 composite capital programme (covering all non-HRA capital expenditure). The plan forecasts investment of £344 million over the five year period. The development of the programme involved bids being submitted on three levels; unavoidable commitments, priorities from asset management plans and new investment. Across these three areas, the Council intend to spend £1.655 million on unavoidable commitments, £116.557 million on priorities from asset management plans and £225.768 million on new investment. £173.3 million of new investment will be towards the Council's Schools and Centres 21 project. In approving the revenue budget for 2013/14, the Council agreed to set aside revenue resources sufficient to generate additional capital expenditure of £100 million to develop a further phase of this programme.

73. The programme has been compiled based on the latest estimates of available resources, including government grants and capital receipts. The Council forecast to receive £138.039 million in Scottish Government grant over the five year period. The level of capital receipts over the five year period has been estimated at £16 million. The Schools and Centres 21 project is due to be funded from a combination of Scottish Government and Council funding.

74. For the three year period commencing 2013/14, the Council's prudential indicators were approved prior to the consideration of the five year composite capital programme. The indicators were calculated on the first draft of the five year composite capital programme which excluded the £100 million of additional resource for the Council's Schools and Centres 21 project. The prudential indicators were prepared on the basis that general fund capital expenditure over the three year period would be £157.1 million. The composite capital programme proposes capital expenditure, over the same period, of £267.630 million.

[5] Total additions per the 2012/13 financial statements were £123.358 million – this includes £2.670 million in relation to future obligations associated with landfill sites.

75. The prudential indicators enable the Council to demonstrate that capital investment plans are prudent and affordable. At the time the indicators were approved it was acknowledged that the impact on the prudential indicators following a revision to the capital programme would be reported to the Policy and Resources (Finance & Customer Services) Sub-Committee. To date, the Sub-Committee has received a quarterly monitoring report which sets out the projected outturn for 2013/14 only. We understand as part of the next quarterly monitoring report, which incorporates a mid-year review, revised prudential indicators will be presented to Committee for approval.

Looking Forward

Partnership working to secure future funding

76. The Council participates in the hub South West project. This comprises a number of public sector organisations ('Participants' and the Scottish Futures Trust) and a consortium of private sector partners. The objective of the project is to develop innovative, sustainable and value for money solutions for community services and infrastructure projects such as Schools and Health Centres, through joined up procurement practices.

77. As part of the Schools and Centres 21 Programme, the Council envisage that two school campuses, Clyde Valley and Greenfaulds High Schools, will be developed through the South West Hub. These projects are both in their infancy but the Council expect the projects to be complete either late 2015 or early 2016.

Commercial property portfolio

78. The Council has undertaken a review to identify the potential for externalising its commercial property portfolio and to generate a significant capital receipt. In August 2013, the Council agreed to enter into a contract with Barclays Bank plc for a loan agreement to finance the creation of North Lanarkshire Properties LLP (a wholly owned ALEO). The contract will run for an initial 10 year period and is subject to an 80% guarantee being provided by the Council. This agreement will generate a capital receipt of £45 million. A total of 975 properties will transfer from the Council's commercial portfolio to the new company. The primary purpose for generating this capital sum is to allow the Council to meet a number of financial challenges which will and may arise in the short to medium term, for example, any potential further costs which may arise in relation to equal pay. This receipt is not included within existing financial plans. We understand it will be incorporated into future financial plans.

Clyde Valley Shared Services

79. The Council is no longer involved in the Clyde Valley Shared Support Services project. This decision was taken following Council consideration of the revised business case. The Council does however continue to lead on the shared procurement exercise for waste treatment and disposal (involving four other councils; North Ayrshire Council, East Renfrewshire Council, East Dunbartonshire Council and Renfrewshire Council). The Council also continue to participate in the social transport project.

Ravenscraig development

80. The Council continues to be involved in the proposed major regeneration of the Ravenscraig site. 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 development of the project, the Council propose investing £10 million in roads infrastructure to support connections to the site (spend to be incurred in 2013/14 and 2014/15).

Welfare reform

81. 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. The government aims to deliver savings of £28 billion through welfare reform by 2015/16 and the Council has estimated that the impact locally could be a loss of up to £49 million from the local economy.

82. 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. From April 2013, council tax benefit was replaced by a Scottish council tax reduction scheme. There will 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 they will provide some face to face support to benefit claimants.

83. The Council has established a working group to consider and develop strategies to address the impact of these reforms. The group has made good progress in the year to ensure that the Council has appropriate arrangements in place to mitigate against the impact of welfare reform. The Council's medium term financial plan has identified the need to commit £2.5million to support no potential impact of welfare reforms on the local population.

Performance

Performance management framework

84. The Council had three key strategic documents in place for 2012/13. These were the Single Outcome Agreement (SOA), the Community Plan and the Corporate Plan. The SOA and Community Plan set out the objectives for the people of North Lanarkshire whilst the Corporate Plan set out how the Council would deliver against those objectives. This included corporate themes for council service activity which were mirrored in the SOA, Community Plan and the Council's service plans.

85. During the year the Council refreshed its key strategic documents. The North Lanarkshire Partnership revised the Community Plan and SOA and brought these together into one document, '*North Lanarkshire Partnership Community Plan 2013-18'*. The new Community Plan (SOA) sets out the Partnership's vision and the priorities and outcomes that it is aiming to achieve. The Plan also sets out the indicators which will be used to measure progress and the targets to ensure progress is in line with the intended outcomes. The Plan sets out five key themes for the North Lanarkshire Partnership; health and wellbeing, lifelong learning, regeneration, community safety and developing the partnership.

86. The Community Plan (SOA) is underpinned by the Council's Corporate Plan. The Council reviewed its Corporate Plan during 2012/13 to ensure it continued to demonstrate the Council's role in delivering the Community Plan (SOA). The Council's Corporate Plan is split into five key themes that are the same as the Community Plan with the exception of 'developing the partnership'. The fifth theme in the Corporate Plan is 'service and people first'. This theme focuses on four target areas; more customer focus, greater efficiency, workforce development and improved performance. The Council believes that these areas will drive forward continuous improvement. The Council's approach to service planning and public performance reporting has not been affected by the refresh of its key strategic documents.

87. The Council has developed a performance management framework to underpin the delivery of these key strategic documents and the Council's service plans. The framework sets out the procedures and protocols for the effective management of the Council's performance management arrangements.

88. The Council's Corporate Service Improvement Team leads and manages the performance management framework. A member of the Corporate Service Improvement Team has been assigned to each of the Council's Services to support delivery of the performance framework. Service plans are reviewed centrally by the Corporate Service Improvement Team, the Chief Executive and the relevant Executive Director before being presented for approval by the relevant service committee. The Council's performance management framework provides staff, management and elected members with assurance on the linkages that should be in place between strategic and service plans and the support structures in place to achieve this.

89. 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. PSIF requires councils to set out a framework for undertaking self-assessment across all services, enabling services to identify strengths and areas for improvement. The Council's Corporate Service Improvement Team support services in developing and using the PSIF model. North Lanarkshire Partnership has also applied the model. Through self-evaluation and facilitated workshops the partnership identified key areas for development. These included developing outcomes and enhancing performance management arrangements for the partnership.

Statutory performance indicators

90. The Accounts Commission has a statutory power to define the performance information that councils have to publish. Since the 2008 Direction, issued by the Accounts Commission, councils are afforded more flexibility in the performance information they report against, giving them the opportunity for integration with their broader best value reporting. This performance information must, when considered cumulatively, fulfil the requirements of SPI 1 (Corporate Management) and SPI 2 (Service Performance). There is also a list of specified indicators that the Council must report against.

91. The indicators North Lanarkshire Council has selected for public performance reporting are taken from the suite of indicators specified by the Accounts Commission supplemented by a number of indicators from the Council's service plans. Service plans are approved by the relevant committee before the start of each year. The plans outline the strategic context for the service's work in the coming year and outline the main challenges the service faces. Contributions to the vision and outcomes of the Single Outcome Agreement and the Corporate Plan are explained and a range of performance indicators are specified, against which the service's performance is to be measured.

92. As part of our annual we reviewed the arrangements for collecting, recording and publishing performance data. Along with the Council's internal audit team we reviewed a sample of the indicators the Council has chosen to report to meet its public performance reporting obligations. Our review sought to ensure that the information produced and published is reliable.

93. In total we tested twenty one indicators; of these one was not being collected in the year and the remaining twenty were found to be reliable. In seven cases the indicator was only found to be reliable after errors identified, either through the audit or by the service, had been corrected. Three recommendations have been made as a result of our review. It is essential that all indicators included in public performance reporting are accurate.

Action Plan Points 7-9

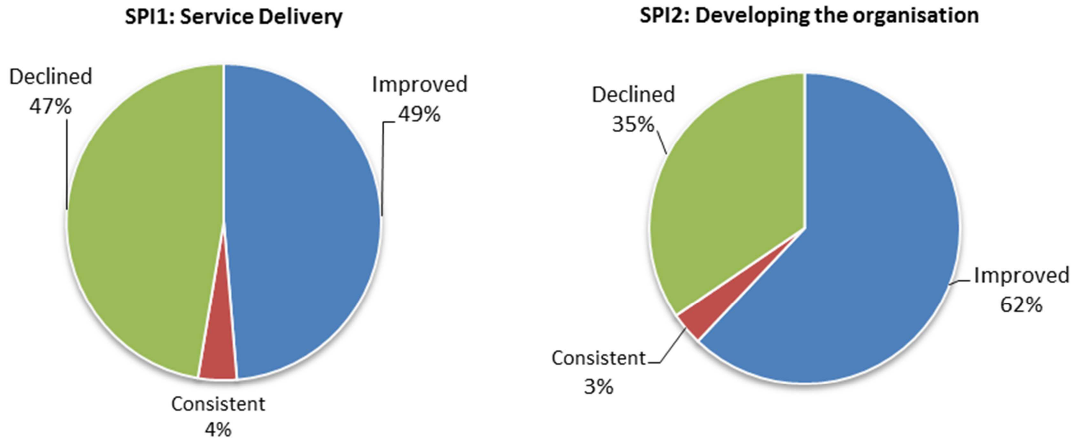
Benchmarking arrangements

94. In February 2013 the Corporate Service Improvement team facilitated a workshop for performance practitioners and their managers to outline the requirements of the SOLACE benchmarking arrangements. In the 2012 Statutory Direction this project has been renamed the Local Government Benchmarking Framework. The session provided information on the work to date and the areas covered by the benchmarking indicators (noting that the indicators are primarily finance focused). Prior to the development of the SOLACE benchmarking indicators the Council benchmarked performance through service led benchmarking arrangements. The Council intends to implement the new SOLACE benchmarking arrangements and report performance through the existing performance reporting framework. Members have been advised of the new benchmarking arrangements through two committee reports during the course of 2012/13. National developments in this area are being monitored and progress will be reported further to the Policy and Resources Committee.

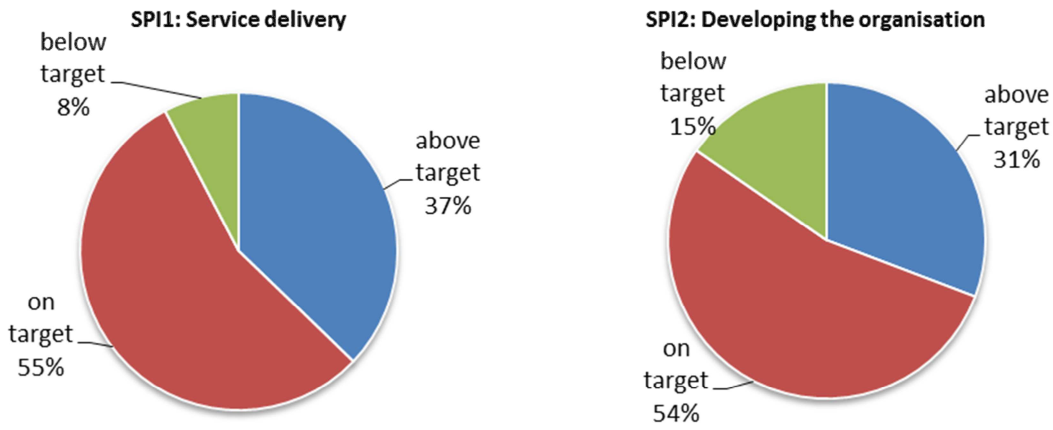
Summary of performance

95. Service committees receive quarterly reports on performance against the service plan which include reporting of indicator results by exception. Explanations are given for all indicators which are above or below the target levels and outwith acceptable thresholds. The Scrutiny Panel monitors performance at a corporate level. The performance of the Council across all of the performance indicators grouped under the relevant SPI headings is summarised below.

Comparison of performance in SPIs against prior period



Comparison of performance in SPIs against target



96. The figures above show that there has been mixed performance compared to the prior period. In total 44% of indicators recorded poorer performance in 2012/13 than in 2011/12. This is broken down into 47% of indicators attributed to SPI 1 and 35% of indicators attributed to SPI 2 having poorer performance. Despite this, the performance against target has been relatively positive with 90% of indicators in total being either on target or above. This leaves 8% of indicators attributed to SPI 1 and 15% of indicators attributed to SPI 2 being below target. This overall position against target is an improvement on 2011/12 when 84% of indicators in total were on or above target.

Public performance reporting

97. The Council's main source of public performance reporting (PPRg) are its Annual Performance Reports, which are published online. This is used to inform the public and stakeholders of the Council's performance against the Corporate Plan, the Community Plan and the Single Outcome Agreement. Service plans, and by extension the indicators selected for monitoring service performance, link back to Corporate and Community Plan outcomes. The information to be used for PPRg is selected from the service plan indicators.

98. The Council also produces a newsletter for all residents which is distributed periodically throughout the year. The newsletter includes, for example, case studies and other means of reporting the Council's performance throughout the year.

99. In June 2013 Audit Scotland reported to the Accounts Commission their evaluation of how well councils fulfilled their duties on public performance reporting during 2011/12. This evaluation sought to:

- Provide the Commission with an assessment of the quality of public performance reporting against the corporate management themes under SPI 1 and the service performance themes under SPI 2, as set out in the Direction.
- Identify whether there has been improvement in how councils are reporting their performance from the baseline year of 2009/10.
- Identify where improvement is still required in terms of public performance reporting.

100. Audit Scotland concluded that North Lanarkshire Council fully or partially met all of the reporting requirements against corporate and service performance, as defined through Statutory Performance Indicator 1 & 2. They did however consider that improvements need to be made in the reporting of improvement targets and in demonstrating that the authority listens and responds to stakeholders. A full PPR project plan for 2013/14 has been developed and includes a number of stakeholder focus groups, a review of other council approaches and products and a full review of the performance reporting arrangements and suite of products.

Best Value

101. Audit Scotland published its audit of best value and community planning at North Lanarkshire 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[6]. 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.

102. 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. When an area of the improvement agenda was completed responsibility for overseeing this area of best value was returned to the relevant service area. The Council described this as mainstreaming best value. In February 2012 the Council reported to the Audit and Governance Panel, through an overview report, that it had mainstreamed 91% of all the items within the agreed improvement plan. The remaining improvement areas related to Equalities and Sustainable Development. A separate agenda item provided the Panel with an update on progress in mainstreaming Equalities and this item was subsequently mainstreamed. Similarly, having received a full report in November 2011 on how the sustainability agenda was being progressed augmented with a further update in this overview report, the Panel agreed that the Council's responsibilities for sustainable development would be delegated to the North Lanarkshire Partnership Board.

[6] The Audit of Best Value and Community Planning: North Lanarkshire Council, Audit Scotland, May 2008

103. The Council supported Audit Scotland's proportionate approach to the assessment of best value. The Council expects that services are committed to delivering best value in their areas. This expectation is evidenced through the fifth theme in the Council's Corporate Plan of 'service and people first'. This theme focuses on more customer focus, greater efficiency, workforce development and improved performance. The Council believes that these areas will drive forward continuous improvement which is a core aspect of delivering best value. This means services should be delivering the most appropriate services for North Lanarkshire using the most effective methods and be able to demonstrate this to stakeholders. The indicators within the theme of 'service and people first' will provide members with some assurance on the delivery of best value within North Lanarkshire Council. Through effective delivery of these indicators the Council will also be able to demonstrate the achievement of the principles of best value to its stakeholders.

104. An annual Corporate Assessment report on the Council's performance against its Improvement Plan is provided to the North Lanarkshire Council Local Area Network. This report provides a summary of the Council's performance and reflects the corporate characteristics of best value. This report is prepared by the Corporate Management Team and reported to the Council's Policy and Resources Committee.

Governance

105. 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.

Governance Arrangements

106. We have reviewed the Council's overall governance arrangements. This has included consideration of the Council's arrangements as they relate to 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. Based on our review, overall governance arrangements are appropriate and in line with our expectation.

107. The work of the Council is supported by its committees and sub-committees, including service committees that oversee the performance and delivery of its services. The Policy and Resources Committee has a wide remit; it guides the Council in the formulation of its policy objectives and priorities and is supported by a number of sub-committees. The Audit and Governance Panel is responsible for reviewing, monitoring and making recommendations on the Council's governance, internal control and risk management framework and considering any issues arising from the work of the Council's internal and external auditors, including any issues arising from the Council's Annual Accounts. The Scrutiny Panel monitors operational performance and policy arrangements linked to the Council's corporate and service planning processes.

108. Since 2008 internal audit has carried out a series of reviews on the Council's corporate governance arrangements against each of the six principles from the *Delivering Good Governance in Local Government* framework (produced by CIPFA in 2007). Internal audit has now completed reviews against all six principles, most recently reporting against '*principle 5 – developing the capacity and capabilities of members and officers to be effective*'. While no significant deficiencies were identified internal audit recommended that Corporate Services engage with elected members to identify possible options for increasing the take-up of training and development opportunities. Discussions with the Corporate Services team indicate that there has been some improvement in this area during 2012/13 (paragraph 111). We support the view taken by internal audit that this is an area where further improvement could be made.

109. The Council is committed to reviewing how best to review its performance against the good governance framework in future years.

Induction and member training

110. Following the local authority elections in May 2012 approximately one third of the seventy elected members of the Council were newly elected. In addition to this a by-election was held for the Coatbridge West ward on 28 February 2013 which resulted in one further newly elected member. The Council offered a five day induction programme to all members which included a number of general and focused training events (a separate introduction pack was prepared for the newly elected member of the Coatbridge West ward).

111. The Council's Corporate Service team has delivered 26 training sessions to elected members during 2012/13 which were supplemented by briefing notes and Improvement Service notebooks. The Council has reported that 201 individual places were taken by 58 different members over the course of these sessions. Members are responsible for understanding and identifying their own training needs. They are supported by Corporate Services who provide draft Personal Development Plans (PDPs) for all members. Attendance at training and development activities has improved during 2012/13 with 67 (96%) of members participating, compared to 41 (59%) in 2011/12.

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

112. We have considered the Council's arrangements for adopting and reviewing standing orders, financial instructions, and schemes of delegation and complying with national and local Codes of Conduct. This has included the consideration of arrangements for the prevention and detection of bribery and corruption. We are pleased to report that we have not identified any concerns in relation to standards of conduct and the prevention and detection of bribery and corruption.

113. The prevention and detection of bribery is covered within the Council's Corporate Anti-Fraud Policy and Fraud Response Plan. The Council intend to issue procedural notes to employees that work in areas where the risk of bribery is higher.

Systems of Internal Financial Control

114. 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 management report, we have found the internal controls over the accounting systems to be generally well designed and operating at an adequate or effective level. While we identified a number of minor control weaknesses within our interim management report we have not identified any significant control weaknesses.

Risk management

115. The Policy and Resources Committee is responsible for approving the risk management strategy and governance framework, supporting management in the use of risk management as an integral part of the Council's business practices and receiving periodic reports on the overall performance of the Council's risk management and governance process. The Audit and Governance Panel has overall responsibility to review, monitor and make recommendations to the Policy and Resources Committee on the Council's risk management framework.

116. 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.

117. The Council has recently revised its corporate risks to reflect the revised strategic priorities, as set out in its new Corporate Plan, and the significant operational risks highlighted by individual Services. Although individual Services undertake regular reviews of Service risk registers and reports are submitted periodically to elected members, the Council has not yet formalised arrangements for subjecting corporate risks to regular review by senior management and elected members. Such reviews would help the Council ensure that these risks are being appropriately managed and, if appropriate, where further actions might be required.

Action Plan Point 10

118. In September 2012, the Council revised its corporate risk management policy and strategy. The update was aimed at ensuring the Council's arrangements remain consistent with best practice. To oversee and facilitate the strategy being embedded across the organisation, a Corporate Risk Management working group has been established, comprising senior management. The group monitors individual service progress in implementing the risk management strategy.

119. The Council has recently procured a new electronic risk management system (Figtree Electronic Risk Register, FERR). The system is currently being trialled by Finance and Customer Services. The Council is currently assessing the merits and practical issues arising from the pilot and any potential roll-out of Figtree across all Services. Although no formal decision has yet been taken, we understand it is expected that roll-out will commence later in 2013/14.

Action plan point 11

Prevention and detection of fraud and irregularity

120. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Council's arrangements to prevent and detect fraud and irregularity. We concluded that the Council's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

National Fraud Initiative

121. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. In 2012 Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £78 million.

122. The Council remain committed to the NFI. The Audit and Governance Panel receives periodic reports on the Council's NFI work, the most recent of which was presented in April 2013. The Council's internal audit team is responsible for planning and co-ordinating participation in the NFI and the investigation of data matches.

123. The Code of Data Matching Practice (2010) outlines good practice for privacy notices (previously referred to as fair processing notices). The Code states that participants should decide the content and means of issue of privacy notices for themselves. The Information Commissioner recommends a three layered approach and whilst the Council complies with this approach, some privacy notices do not clearly state where individuals can obtain further information about how, why and by whom their data is being processed. The Council should also consider whether privacy notices can be disclosed to suppliers prior to commencing the next NFI exercise.

Action Plan Point 12

124. The NFI works by using a data matching tool to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. These are referred to as 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. North Lanarkshire Council has received 3,563 recommended matches from a total of 14,069 matches. Of the 1,749 matches reviewed to date the Council has identified 111 errors and 16 frauds, leading to a potential recovery of £61,711.

125. The NFI website categorises matches which allows the Council to focus on recommended matches and areas of higher risk. While the Council have targeted investigations at higher quality matches, the majority of recommended matches have still to be concluded upon. The approach taken is reasonable as there have been a number of areas where recommended matches have subsequently been treated as low risk by the Council, due to past experience of investigations.

126. We will continue to monitor the Council's approach to NFI and the progress made against outstanding matches. We are required to give a formal assessment of the Council's arrangements by the end of 2013 to inform the national report being produced by Audit Scotland.

Following the public pound

127. Arms-length and external organisations (ALEOs) are funded by the Council to provide services which relate to the Council's broader objectives. Funding for ALEOs can range from relatively small grants to voluntary and community organisations to significant funding to trusts set up by the Council.

128. It is important to be able to 'follow the public pound' across organisational boundaries. It should be possible to trace the funds from the point at which they leave the Council to the point at which they are ultimately spent by the receiving organisation. This ensures that public funds are used properly, accountability is maintained and value for money can be demonstrated.

129. In 1996 the Accounts Commission for Scotland and the Convention of Local Authorities Scotland (COSLA) issued the *Code of Guidance on Funding External Bodies and Following the Public Pound* ("the 1996 Code"). The 1996 Code aimed to re-establish some of the mechanisms of accountability in relation to these funds and ensure that the key themes of openness, integrity and accountability are applied to services delivered by ALEOs.

130. Each council must apply the principles of the Code as it relates to its own individual circumstances. The Code seeks to ensure that the key themes of openness, integrity and accountability are applied to services delivered by ALEOs.

131. North Lanarkshire Council has interests in approximately nineteen external organisations. In 2012, the Council's Policy and Resources Committee approved assurance monitoring arrangements which cover financial, operational and social criteria and are specified in each individual ALEO's service level agreement or equivalent. Financial monitoring arrangements are reviewed by the Policy and Resources Committee. Responsibility for ensuring such bodies achieve their wider service delivery and operational objectives lies with the relevant Service committees. In addition, the Council's Audit and Governance

Panel, over the last year, has invited senior representatives from these external organisations to attend the Panel and outline their corporate governance, performance management and risk management arrangements.

132. An annual report is presented to the Policy and Resources Committee and Audit and Governance Panel which advises them of compliance with the assurance arrangements in the year and proposals to improve the processes in the following year. In 2012/13, the Council concluded that all but three of the organisations reviewed had complied with the approved monitoring arrangements. Looking forward to 2013/14, the Council intends to develop its existing arrangements in the following ways:

- The development of a corporate register detailing the financial commitments to individual organisations.
- Discussion with the ALEOs to review/improve scheduling of ALEO board meetings.
- Discussion with the ALEOs to ensure timely receipt of board papers.
- To establish effective post board meeting communication.
- Creation of a register of potential conflicts of interests and ensure council representatives are aware of the training and support available to them in this area.

133. The Council also provides grant funding to a number of organisations. Over the last year, a member/officer working group has been established to review and develop a strategic approach to the provision of grant funding. In August 2013, the working group presented its conclusions to the Learning and Leisure Services Committee. It is the intention that a new strategic grant awards programme framework will commence in 2014/15 to consolidate and replace existing arrangements. As part of this process, the guidance issued to officers is due to be revised and will reflect the principles in the 1996 Code.

134. As part of our annual audit we selected a sample of organisations in which the Council has an interest and reviewed the funding arrangements to ensure compliance with the 1996 Code. Our review considered existing ALEOs along with the newly created Culture NL Ltd. Our review did not consider the arrangements in place where the Council provides grant funding. Overall we concluded that the Council has complied with the principles of the Code (for those organisations sample tested). We did however note the following:

Funding Agreements

135. At 31 March 2012, the five year funding agreement between the Council and North Lanarkshire Leisure Ltd (NLL) was extended while the new funding arrangement was agreed. The funding agreement provides the Council with the option to extend the original term of the agreement by a period of five years. During 2012/13 the Council, under its financial assurance arrangements, requested access to NLL's financial records. Although access is covered by the terms of the service level agreement, NLL did not permit the Council sufficient access to its financial records. This has now been resolved and access has been granted to the accounting records.

136. At the 31 March 2013, the funding agreement between the Council and Town Centre Activities Ltd ended. The agreement does by default automatically role forward each year.

137. The Council is currently working on revised formal funding agreements for these ALEOs. The Council however should look to ensure that funding agreements are renewed in a timely manner to avoid potential gaps between agreements.

Action Plan Point 13

Community, Health and Social Care Partnerships (CHSCP)

138. In May 2012 the Scottish Government released a formal consultation document on the integration of health and social care services for older people. Its response to the consultation was issued in February 2013. Legislation is expected later this year that will require local authorities and health boards to integrate health and social care services for all adults with the option of including other areas such as housing or children's services.

139. Initial discussions involving the Chief Executives of North and South Lanarkshire Council and NHS Lanarkshire have taken place to address some of the areas to be set out in the planned legislation. This includes for example, whether it adopts the 'lead agency' or 'body corporate' model of integration and what services are to be included. We intend to maintain a watching brief in this area.

Appendix 1: Action plan

Our 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

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.

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments	Responsible officer	Agreed completion date
1.	**31**	**We recommend that management undertake a comprehensive review of the asset register to ensure that all assets are correctly classified and, if required, revalued at intervals of no more than five years.** **A reconciliation should be carried out between the accounting teams asset register and the estates section register to ensure completeness of the asset records.**	**Amber**	**A full review of the fixed asset register will be undertaken during 2013/2014 including a reconciliation of both systems.**	**Head of Financial Services**	**March 2014**
2.	33	The accounting team should review the level of information held on the e-financial asset management module. This should include the date of the last valuation.	Green	Financial Services will review the level of information on assets held within e-financials as part of the full review of the Fixed Asset Register.	Head of Financial Services	March 2014
3.	**33**	**A valuation report for each asset valued and an overarching valuation report should be prepared on an annual basis.**	**Amber**	**Finance will enter into discussions with Property Services to consider improvements to the reporting of valuations as well as a review of the valuation information currently held.**	**Head of Financial Services**	**December 2013**
4.	47	The Council should revisit discussions with OSCR on the consolidation of the charitable trust funds.	Amber	The Council will continue to work with OSCR on the consolidation of the charitable trust funds.	Head of Financial Services	Ongoing

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments	Responsible officer	Agreed completion date
5.	**62**	**Management may wish to consider including an additional reference in its financial performance reports to all transfers to/from earmarked funds.**	**Green**	**The Council will reflect all significant movements to/from earmarked funds within its overall budget monitoring reports.**	**Head of Financial Services**	**With effect from Period 6 2013/2014**
6.	63	The Council has reported a surplus against its budget for the last two years. This is in part due to savings being achieved earlier than the planned savings programme. The Council should consider making changes to its budget to reflect the achievement of making earlier than planned savings.	Green	The Council has a prudent approach to financial management and identifies significant underspends of this nature within overall reporting processes. Members already have the ability to utilise these resources. This would require budget adjustments following formal committee approval. The Council will continue to highlight underspends through these reporting processes rather than make budget adjustments.	**Head of Financial Services**	**n/a**
7.	**93**	**The Learning and Leisure service should consult the internal audit function to agree an appropriate approach to estimating user numbers for the indicator "*Attendances, other indoor sport and leisure facilities, schools - number per 1,000 population*". We note that the Council currently estimates values reported in this indicator.**	**Green**	**The Service will arrange to meet with Internal Audit and the Chief Executive's Office with a view to reviewing and agreeing a suitable process to be used for estimating these figures.**	**Active Schools/Sports Manager**	**October 2013**

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments	Responsible officer	Agreed completion date
8.	93	Indicator – *businesses (existing and new businesses supported by the Council*). The Regeneration and Environmental service has not carried out the planned checks on the data used in these indicators. The service should carry out planned checks on a timely basis in future.	Green	A compliance audit for Business Gateway information is undertaken on a 7% sample basis every 12-months. This was undertaken on 15th August 2013. For the new contract which started on 1 October 2012 – this audit covered up to 31 March 2013 to bring in line with financial years. Overall the information was found to be of an acceptable standard. A sample review of the data will continue to be carried out on an annual basis across all indicators including internally reported indicators and indicators provided by the Business Gateway contractor and Town Centre Activities Ltd.	**Team Leader – Business Services**	**Complete and will continue annually**
9.	**93**	**Final data should be used wherever possible in the future collection of the indicator *"Carriageway - % resurfaced or surfaced dressed*". We noted immaterial variances between the data used to calculate the indicator and supporting documentation. Estimates were used that were not updated to reflect the final figures for areas being resurfaced or dressed.**	**Green**	**The process was reviewed August 2013. Staff were issued with formal guidance which details guidance for the completion of RAMP returns and associated performance indicator information.**	**Assistant Engineer**	**Complete**

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments	Responsible officer	Agreed completion date
10.	117	The Council should formalise arrangements for subjecting corporate risk to regular review by senior management and elected members.	Amber	We will formalise arrangements for subjecting corporate risks to regular review by senior management and elected members.	Executive Director of Finance and Customer Services as the Chair of the Risk Management Corporate Working Group	October 2013
11.	**119**	**The Council should ensure that appropriate actions including staff training are identified and progressed as and when the use of Figtree is rolled-out across Services.**	**Green**	**The Council will ensure that all appropriate actions including staff training are identified and then progressed as the use of 'Figtree' is rolled-out across Services.**	**Executive Director of Finance and Customer Services as the Chair of the Risk Management Corporate Working Group**	**To be determined: following confirmation of roll-out plans**
12.	123	The Information Commissioner recommends a three layered approach for privacy notices and whilst the Council complies with this approach, they should ensure that all privacy notices clearly state where individuals can obtain further information about how, why and by whom their data is being processed. The Council should also consider whether privacy notices can be disclosed to suppliers prior to commencing the next NFI exercise.	Green	Internal audit will liaise with relevant Services to review, and where appropriate, amend all existing privacy notices to ensure that they comply with all aspects of recognised best practice. This exercise will include consideration of how best to address privacy issues surrounding data in respect of suppliers held on the creditors system.	Audit Manager	March 2014

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments	Responsible officer	Agreed completion date
13.	137	The Council is currently working on revised formal funding agreements for North Lanarkshire Leisure Ltd and Town Centre Activities Ltd (both of which were extended pending new agreements). The Council should however look to ensure that funding agreements with ALEOs are renewed in a timely manner to avoid potential gaps between agreements.	Amber	Mechanisms are in place to ensure funding agreements are renewed.	Head of Financial Services.	Completed.