North Lanarkshire Council

Annual report on the 2013/14 audit to the Council and Controller of Audit

September 2014

Scott-Moncrieff
business advisers and accountants

North Lanarkshire Council

Annual report on the 2013/14 audit to the Council and Controller of Audit

Executive summary

Financial statements

Our independent auditor's report for the year ended 31 March 2014 gives an unqualified opinion on the financial statements and an unqualified opinion on other prescribed matters.

We have however drawn attention in our independent auditor's report to the fact that four of the Council's significant trading operations (STOs) have failed to break even, on a cumulative basis, over a three year period. This arose as a result of costs of restructuring associated with the Council's financial savings programme along with the STOs share of equal pay costs in the year. 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. There are no other matters that we have to report to you by exception.

As at 31 March 2014, the Council has recognised a provision of £47.5 million in relation to equal pay claims. The assumptions used by the Council in estimating the provision are considered reasonable and the amounts provided for at 31 March 2014, based on those assumptions, are materially correct.

The Council administers 13 trust funds that are registered with the Office of the Scottish Charity Regulator. We have provided an unqualified audit opinion on each of the charitable trust fund's 2013/14 financial statements. Whilst we did not identify any significant weaknesses over the accounting systems and internal controls, we did identify a number of observations for improvement. These have been reported separately to the Trustees.

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 £15.642 million compared to the previous year and totalled £119.148 million at 31 March 2014. This movement was largely attributable to an increase in the capital fund in which a capital receipt of £45 million was deposited following the transfer of the 975 properties to NL Properties LLP, a subsidiary of the Council. The general fund balance brought forward at 1 April 2013 of £79.300 million decreased to a cumulative net surplus of £75.021 million at 31 March 2014. Of the £75.021 million general fund balance, £57.191 million has been earmarked for specific purposes. The unallocated general fund balance of £17.830 million is above the £12 million approved reserve level.

Actual capital expenditure for 2013/14 was £90.677 million (comprising both general fund and HRA). The Council delivered 92% of the approved general fund capital programme for the year and 87% of the approved HRA capital programme. The Council approved a £344 million, five year capital programme (covering all non HRA capital expenditure) in March 2013. The programme is made up of broadly two components: the continuation of the Schools and Centres 21 initiative; and the composite capital programme.

We considered the Council's financial position, related budgets and projections to ensure that they are soundly based. Overall we found that the Council has adequate arrangements in place for financial management and the use of resources. 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 be generated, over the next three years, in workforce arrangements, asset management, procurement, service prioritisation and income generation. The Council achieved £20.260 million (97%) of its planned savings in the year. In addition, £0.447 million of replacement savings were identified, leaving a gap of £0.177 million which was met through reserves.

A City Deal, establishing a £1.13 billion infrastructure fund, was announced in July 2014. The Council reports that projects worth £172.5 million to North Lanarkshire will be delivered over the first ten years of the initiative. These projects will be offset by future grant income of £149.9 million, leaving a balance of £23.6 million to be funded by the Council.

Operational responsibility for the Council's cultural and associated services transferred to Culture NL Limited, a subsidiary of the Council, on 1 April 2013. We have reviewed the Council's consideration and accounting treatment and concluded that it is line with the Code.

Performance

The 2014-17 Assurance and Improvement Plan (AIP) notes that North Lanarkshire Council continues to demonstrate strong governance and planning arrangements resulting in continuous improvement since the last AIP in 2013/14. As a result of the shared risk assessment undertaken by the local area network, no formal scrutiny response has been identified for the period 2014-17.

We found that the Council has adequate arrangements in place for the collection and publication of accurate and complete information in relation to public performance reporting, and that these are functioning effectively.

Performance has been broadly positive when compared to the prior year. In total: 20% of the Council's performance indicators improved in performance; 60% of indicators were consistent with the prior year; and only 11% of indicators declined. The remaining 9% of indicators were either new in the year, or did not have information available at the time of audit.

Audit Scotland has concluded that in 2012/13, the North Lanarkshire Council fully or partially met all of its public performance reporting requirements against corporate and service performance.

Governance

We have reviewed the Council's corporate governance arrangements and found that generally adequate and effective systems are in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption.

Conclusion

This report concludes our audit of North Lanarkshire Council for 2013/14. 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.

Scott-Moncrieff
September 2014

Introduction

1. This report summarises the findings from our 2013/14 audit of North Lanarkshire Council (the "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 2013/14 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.

3. As part of our audit, we have also made use of the work of other inspection bodies including the Council's internal audit service and Audit Scotland.

4. The Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

5. 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

6. The Council's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Council and the auditor in relation to the financial statements are outlined in Appendix 1.

7. In this section we summarise the issues arising from our audit of North Lanarkshire Council's 2013/14 financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

8. The annual accounts for the year ended 31 March 2014 were approved by the Council on 24 September 2014. Our independent auditor's report gives:

- an unqualified opinion on the financial statements; and
- an unqualified opinion on other prescribed matters.

9. Within our report we are required to draw attention to the fact that four of the Council's significant trading operations (STOs) have failed to break even, on a cumulative basis, over a three year period (paragraph 29). This arose as a result of the costs of restructuring associated with the Council's financial savings programme along with the STOs share of equal pay costs in the year. While this reflects a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.

10. 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.

11. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to staff at North Lanarkshire Council for their assistance with our work.

Independence

12. We are required by international standards on auditing 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

13. 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.

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

Key areas of audit focus and significant findings

15. As noted in our 2013/14 External Audit Plan the following audit risk areas were identified as significant matters and therefore considered in detail during our audit fieldwork.

Financial Position
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 be generated, over the next three years, in workforce arrangements, asset management, procurement, service prioritisation and income generation.
There is a risk that the financial position is not soundly based and/or the Council's long term financial health is jeopardised.

Noted in 2013/14 External Audit Plan

16. During our audit we considered the Council's financial position, related budgets and projections to ensure that they are soundly based. Overall we found that the Council has adequate arrangements in place for financial management and the use of resources. Our findings are reported more fully in the 'use of resources' section of this report.

Property Plant and Equipment
The Code requires all classes of assets (with the exception of infrastructure, community assets or assets under construction) to be measured at fair value. 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.
During our 2012/13 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 was however considered immaterial in the context of the Council's non-current asset base of £2.1 billion.
The Council are committed to carrying out a full review of the fixed asset register in preparation for the 2013/14 financial statements.
There is a risk of a material misstatement in the financial statements should the Council not address the weaknesses identified during the 2012/13 audit in respect of property, plant and equipment.

Noted in 2013/14 External Audit Plan

17. During our audit (interim and final) we reviewed the work undertaken by the Council's Accounting Team on the asset registers. Although we identified a small number of issues, overall we concluded that property, plant and equipment is not materially misstated in the 2013/14 financial statements.

18. We identified five assets with net book value of £1.611 million (as at 31 March 2014) that had not been subject to formal revaluation within a five year cycle. All five assets are now scheduled to be revalued during 2014/15.

Action plan point 1

19. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) stipulates the following requirements in relation to accounting for the revaluation gains:

> The revaluation gain on revalued asset should be recognised in revaluation reserve unless the gain reverses previous impairment loss charged to surplus or deficit on the provision of services on the same asset.
>
> A revaluation gain should firstly be used to reverse a previous revaluation decrease or impairment loss recognised in surplus or deficit on the provision of services on the same asset. This however should not exceed the increase that would restore the asset's carrying amount to what it would have been had the original loss not occurred.

20. During our audit we noted that, for four assets, the revaluation gain in the year had not been accounted for correctly. We estimate that the deficit on the provision of services and balance on the Council's revaluation reserve are overstated by £3.349 million as a result.

21. We also noted that the deficit on the provision of services and revaluation reserve is understated by £0.05 million. The reversal of impairment loss required to be taken to the surplus/deficit on the provision of services was not limited to the increase in restoring the asset's carrying amount to what it would have been had the original impairment loss not occurred.

Action plan point 2

22. Depreciation is defined in the Code as '*an allocation of the cost of the asset over its useful life*'. The Code requires that an asset should not be depreciated until it is available for use, i.e. in a location and condition necessary for operation as intended by management. It is the Council's policy to not commence depreciation on assets until the accounting period following the one in which the asset was acquired or became operational. While we are satisfied that this treatment did not result in material misstatement in 2013/14, this is not entirely consistent with the provisions of the Code. The Council should update their depreciation policy to ensure it is fully compliant with the Code.

Action plan point 3

23. During our audit we identified balances on the revaluation reserve for a number of infrastructure assets and community assets. Per the Council's accounting policies and in accordance with the Code, infrastructure assets and community assets are measured at historic cost. This resulted in the Council's asset base being overstated by £2.553 million.

Equal Pay

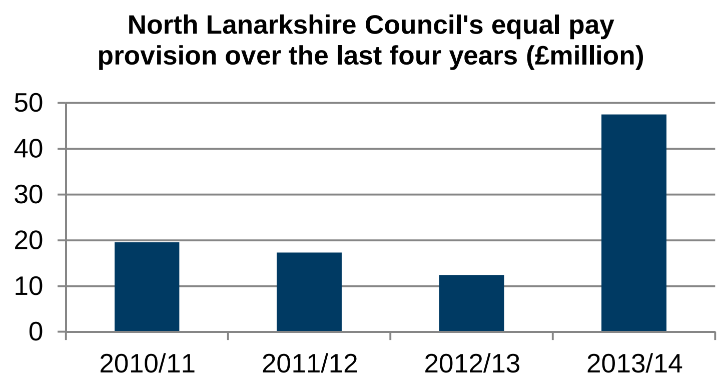
In 2012/13, the Council reported a provision in its financial statements in relation to equal pay claims (£9.073 million). The Council is also aware of potential additional liabilities in respect of pay protection. As yet, no provision has been made for these potential liabilities as there remains a significant degree of uncertainty over both the potential costs and the possible legal process associated with these claims.
The Council continues to monitor any potential liabilities.

Noted in 2013/14 External Audit Plan

24. The Council implemented Single Status Job Evaluation in November 2006 within the framework of the

national scheme. Where employees would have seen a reduction in their pay due to the scheme, the Council operated pay protection to negate any adverse impact.

25. On a national scale, the Single Status Agreement has resulted in a number of claims against local authorities. North Lanarkshire Council has taken a prudent approach in recognising a provision for equal pay claims, since 2005/06, in its financial statements. The provision has been assessed on an annual basis since that date.



26. In light of developments in the legal processes associated with equal pay claims received by the Council and other organisations and after taking advice of external legal experts, Simpson & Marwick, the Council has determined that an additional provision of £39.587 million should be recognised in respect of equal pay in its 2013/14 financial statements. This brings the total provision on the balance sheet as at 31 March 2014 to £47.5 million.

27. The Council has used general reserves to fund the increase in the provision. £27.422 million has been applied from the Council's capital fund to finance principal debt repayments in the year, thereby releasing general fund reserves to fund the provision. A further £10.845 million has been financed from existing general fund reserves, along with £1.320 million from the Housing Revenue Account.

28. We have reviewed the legal advice of Simpson & Marwick, considered the appropriateness of any assumed additions or deductions and performed sample testing of individual employee calculations within the provision. We are satisfied that the Council has obtained sufficient and appropriate advice when considering the need to recognise the provision and that doing so is in line with the requirements of International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*. The assumptions used by the Council in estimating the provision are considered reasonable. Amounts provided for at 31 March 2014 have been calculated on the basis of those assumptions and are materially correct.

Significant Trading Operations

In June 2013, LASAAC issued guidance on STOs. This guidance provides 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.

Noted in 2013/14 External Audit Plan

29. Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period. North Lanarkshire Council currently operates five STOs. Overall, the STOs reported a combined deficit of £6.083 million for 2013/14 (2012/13: £1.313 million combined surplus).

30. The Council has failed to comply with its statutory requirement for the three year period ending 31 March

2014 within Building Cleaning, Catering, Waste Management and Fleet Operations. The only STO to report a cumulative surplus was Land Management (£0.07 million). In the previous year Land Management failed to meet the statutory break even position. The deficits reported in 2013/14 are principally due to exceptional one off costs associated with restructuring and equal pay claims.

Trading operation surplus / (deficit) 2011-2014 (£'000)

	Building Cleaning £'000	Catering £'000	Waste Management £'000	Fleet Operations £'000	Land Management £'000
2011/12	746	268	(88)	(98)	(247)
2012/13	358	102	310	68	475
2013/14	(2,213)	(2,839)	(467)	(406)	(158)
Surplus/(Deficit) over 3 years	**(1,109)**	**(2,469)**	**(245)**	**(436)**	**70**

Source: *North Lanarkshire Council's Annual Accounts 2013/14 – revised surplus/(deficit) on STOs*

31. The Council's Environmental Services Committee considered the LASAAC guidance in 2014. From 1 April 2014 the Council has replaced its existing five STOs with one combined STO covering all external services (Building Cleaning, Waste Management and Fleet Operations). The focus on external activities, within the LASAAC guidance, led the Council to conclude that two of the previous operations (catering and land management) would no longer fall to be classified as STOs. Following further consideration the Council concluded that the current activities of the remaining three activities did not individually warrant treatment as STOs, principally on the grounds that the turnover of the external element of the individual operations is not significant to the Council's net revenue budget. However, given that other requirements within the LASAAC guidance were met the Council took the view that the remaining three operations (Building cleaning, Waste management and Fleet operations) would collectively still be treated as an STO.

32. We reviewed the Council's assessment against the LASAAC guidance and found it to be reasonable.

North Lanarkshire Properties LLP

In 2013, the Council entered 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 runs for an initial 10 year period and is subject to an 80% guarantee being provided by the Council. This agreement has generated 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.

There is a risk that the Council does not account for the related transactions in line with the Code, including consideration of group accounting requirements.

Noted in 2013/14 External Audit Plan

33. The Council has received a capital receipt of £45 million in 2013/14 in relation to the transfer of its commercial properties to North Lanarkshire Properties LLP. This has been recognised in the 2013/14 financial statements, within the capital fund. £27.422 million of the capital receipt was subsequently used to finance principal debt repayments in the year.

34. The transfer of Council's commercial properties to North Lanarkshire Properties LLP has resulted in an accounting loss on disposal of £25.391 million in the 2013/14 financial statements as the proceeds of sale were below the carrying value of the assets. We concluded during our audit that the accounting entries associated with the disposal of the commercial properties were in line with the Code.

35. The Council considered the status of North Lanarkshire Properties LLP against the Code provisions for group accounts and has treated the LLP as a subsidiary in its 2013/14 financial statements. We have reviewed the Council's approach and concluded that it has accounted for North Lanarkshire Properties LLP in its group financial statements in accordance with the Code.

Culture NL

Operational responsibility for North Lanarkshire Council's cultural and associated services, including leisure, catering, caretaking and cleaning transferred on 1 April 2013 to a specially created non-profit distributing organisation (NPDO), Culture NL Limited (a company limited by guarantee with charitable status).

The new organisation is responsible for the management and operation of performance venues, arts activity and arts development, community centres (including the letting of school halls), museums, libraries services and play services on behalf of North Lanarkshire Council. It also manages the leisure, catering, cleaning and caretaking functions associated with these services.

There is a risk that the Council does not account for the related transactions in accordance with the Code, including the consideration and application of group accounting requirements.

Noted in 2013/14 External Audit Plan

36. The Council has considered the status of Culture NL against the Code provisions for group accounts and has accounted for the charitable company as a subsidiary in its 2013/14 financial statements. We have reviewed the Council's consideration and accounting treatment and concluded that it is line with the Code.

Review of the 1985 Regulations

The Scottish Government has recently concluded on changes to the statutory arrangements for local authority accounts and audit. The Scottish Government is proposing to revoke The Local Authority Accounts (Scotland) Regulations 1985 and replace them with a single set of regulations 'The Local Authority Accounts (Scotland) Regulations 2013'. The consultation sought feedback on the following proposals:

1) Strengthened governance arrangements: the inclusion of an annual governance statement and an enhanced role for council members approving the annual statutory accounts
2) Enhanced reporting in the statutory accounts
3) To make it a statutory requirements for a local authority to undertake an adequate and effective internal audit
4) The requirement to disclose cash equivalent transfer values in the Remuneration Report

The Council already comply with many of the proposed changes. There is a risk however that should these Regulations be introduced in 2013/14, that the Council does not fully comply with these.

Noted in 2013/14 External Audit Plan

37. The Regulations were laid before Parliament in July 2014 and are due to come into force on 10 October 2014. We will therefore consider the impact on North Lanarkshire Council in 2014/15.

Welfare reform

The Council has established a working group to consider and develop strategies to address the impact of welfare reforms. The Council's medium term financial plan has identified the need to commit £2.5million to support the potential impact of welfare reforms on the local population.

The Council's rent arrears have increased significantly since March 2013 following the introduction of the under-occupancy rule. The year on year increase is in excess of £1 million.

Noted in 2013/14 External Audit Plan

Council dwellings: 36,377	Net rent arrears: £3.547million
North Lanarkshire Council	
Rents from dwellings: £103.74million	Rise in net arrears since 2012/13: £0.561million

38. The Council's medium term financial plan identified the need to commit £2 million to support the potential impact of welfare reforms on the local population. The Council established a working group to consider and develop strategies to address the impact of welfare reforms. The group meets bi-monthly. Regular monitoring reports are made to the corporate management team (CMT), the North Lanarkshire Community Planning Partnership and the relevant service committees.

39. In April 2013 the Housing and Social Work Services committee approved the establishment of the Prevention and Sustainability Fund (PSF), using £1 million of HRA funds. A further £1 million allocation to the fund was approved in February 2014. The PSF was set-up to provide a means of engaging with tenants with a view to promoting longer term financial independence. This has involved providing financial assistance to tenants adversely affected by under-occupancy. It was seen as an important step in addressing the consequences of the UK Government's welfare reforms within North Lanarkshire, and particularly those due to under-occupancy charges (commonly referred to as the bedroom tax). The Council requested the opinion of a Queens Counsel (QC) on the legality of the fund before setup. The QC concluded that the establishment and operation of the fund was within the legal authority of the Council (*intra vires*).

40. The PSF has been funded from balances held within the Housing Revenue Account (HRA). The QC's advice is that in this instance the Council is able to transfer such balances from the HRA to the general fund[1] to be expended on the PSF[2]. We have carried out a high level review of the advice received and the accounting treatment adopted by the Council in respect of the PSF and concluded that it is in line with the Code.

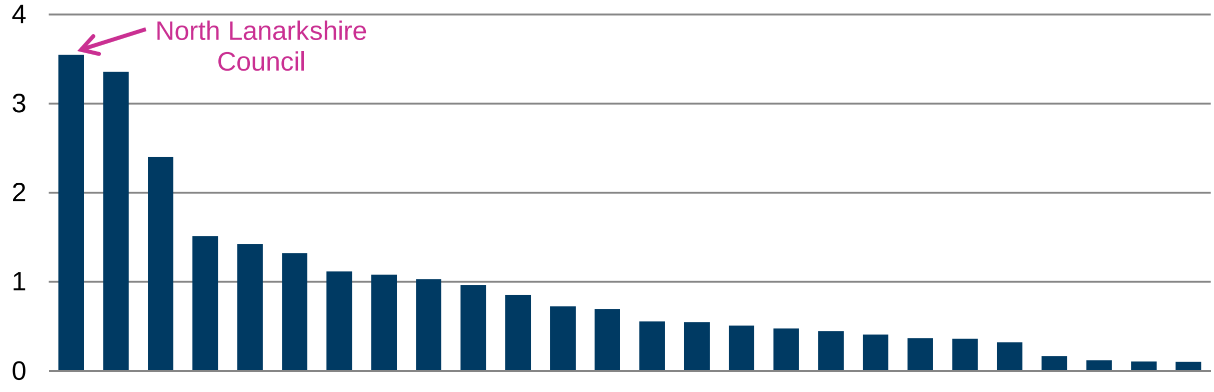
41. In April 2014 there were 5,046 tenants within the Council area that were affected by under-occupancy charges. By the end of 2013/14 2,080 tenants were receiving ongoing awards from the PSF to assist with under-occupancy charges[3]. PSF Expenditure totalled £0.5million in 2013/14. This amount has been appropriately transferred from the HRA to the general fund through the Movement in Reserves Statement in the financial statements. The Council estimates that a further £0.5 million is required to carry the awards forward into 2014/15.

42. The chart below shows, that at £3.547 million, the Council has the highest level of net rent arrears[4] in Scotland. The prominence of these results should however be viewed in context, as the Council has the

[1] Under paragraph 9(1) of Schedule 15 of the Housing (Scotland) Act 1987
[2] Under section 93(1) of the Local Government (Scotland) Act 1973
[3] Source: Housing and Social Work Services committee paper, April 2014: Welfare reform

highest level of dwelling rent income in Scotland at £103.74 million. Net rent arrears are 3.4% of dwelling rent income and whilst this is above the mean (2.7%) and median (2.5%) results nationally, it does not appear to be unreasonable given the Council's specific circumstances.

Local authority net rent arrears (£million)



Source: Unaudited local authority accounts 2013/14 – as provided by Audit Scotland.

Revenue recognition

Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Council could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2013/14 External Audit Plan

43. We have evaluated each material revenue stream, considered the Council's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied consistently. Satisfactory assurance has been gained in respect of the completeness and occurrence of revenue transactions in the year.

Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Noted in 2013/14 External Audit Plan

44. We have reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. Satisfactory assurance has been gained in respect of the mitigation of this risk.

Issues identified during our audit fieldwork

45. During the course of our audit work we noted the following:

Group accounts

46. Two new subsidiaries have been reflected in the group accounts in 2013/14: North Lanarkshire Properties LLP and Culture NL. These bodies were set-up to manage the Council's commercial property portfolio and cultural & related activities respectively. In addition, one new joint venture has been recognised in 2013/14: Morrison Scotland (Services) Limited. In previous years this joint venture was not consolidated as it was not deemed material to the group. All three group bodies have reported surpluses in the year which have been consolidated into the group financial statements.

New group bodies

2013/14 impact	Morrison Scotland (Services) Ltd	NL Properties LLP	Culture NL Ltd
Surplus	1.773	0.746	0.350
Reserves	7.963	24.378	1.019

47. Police and fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. As a result local police and fire joint boards are no longer part of the Council's group accounts. The movement on group reserves statement discloses the removal of balances associated with police and fire in the Council's group accounts.

Group bodies removed

	Strathclyde Fire and Rescue Joint Board	Strathclyde Police Joint Board
Reserves	(125.951)	(642.750)

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

Scottish Coal

49. Following the liquidation of Scottish Coal, there is a risk that the Council may be liable for restoration costs on opencast coal sites in North Lanarkshire. There are no active opencast coal sites in North Lanarkshire, though there are some coal sites at various stages of restoration and aftercare. The Council is carrying out a review of all mineral developments in the area and has currently identified two sites where the operator has gone out of business and the site has been left unrestored: the former opencast coal site at Damside, Allanton and Mossban farm waste recycling and treatment site, Newhouse.

50. The Damside site should have been restored in full by 2003 but restoration works, which were well advanced at the time, were suspended. An enforcement notice requiring the completion of restoration works was issued in 2013. Since then the Council has been in discussion with a potential purchaser for the site. The Council do not consider there to be significant risk from this site given the amount of restoration works required, the likelihood of future pollution events and the presence of a willing developer.

51. The Newhouse site started as an opencast coal site in the 1980's and was abandoned in the 2000's. Planning permission was subsequently granted for waste usage. Given the site's use, the council consider there to be a possibility of future pollution events in the area. However, it considers that the main responsibility for addressing such issues lies with the Scottish Environment Protection Agency. Discussions are currently ongoing between all interested parties to see how this matter can be resolved.

Decommissioning assets

52. In September 2014 LASAAC released final guidance on asset decommissioning obligations. The guidance is framed with reference to landfill sites, but is equally applicable to other related obligations, such as quarries and waste treatment facilities. Local authorities that operate such sites have an obligation for restoration and aftercare costs. In 2012/13 the Council recognised a provision for £2.67 million in respect of restoration costs for the landfill site at Auchinlea. In 2013/14 the provision was reduced by £0.638 million to reflect the amounts actually paid out in the year on site restoration.

Annual Governance Statement

53. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of North Lanarkshire Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the Council to continue to progress improvements in the Council's governance arrangements.

54. We have reviewed the Council's Annual Governance Statement and have found that it complies with the relevant guidance: *Delivering Good Governance in Local Government*. We have also found that the processes used to prepare the statements are reasonable and appropriate.

Remuneration report

55. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared. We have found that the Remuneration Report includes all relevant disclosures and is in agreement with the accounting records.

Follow up of prior year audit recommendations

56. As part of our audit we have followed up the recommendation raised in our 2012/13 Annual Report. The following table indicates the number of issues that have not been completed. Those actions which are yet to be completed have been raised in our 2013/14 action plan (Appendix 2) and relate to the following areas:

- Property, plant and equipment (paragraph 17)
- Charitable trust funds (paragraph 66)
- Reporting on the movement on earmarked funds (use of resources).

Total number of recommendations raised in 2012/13 Annual Report	Complete	Not yet complete
13	10	3

Audit adjustments and unadjusted items

We report the following misstatements identified through our audit to the Executive Director of Finance and Customer Services:

- all material corrected misstatements
- uncorrected misstatements with a value in excess of 1% of the overall materiality figure
- other misstatements below the 1% threshold that we believe warranted reporting on qualitative grounds

57. 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.

58. 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. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the financial statements.

Materiality

59. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.

60. Our assessment of materiality for the group financial statements was £9.5 million, which has remained appropriate throughout the audit. Our assessment of materiality was set with reference to a range of benchmarks (including gross service expenditure, surplus/deficit on provision of services and usable reserves). We consider these to be the principal considerations for the users of the accounts when assessing the financial performance of the Council.

61. Our External Audit Plan outlines the significant risks that were identified at the planning stage of the audit. We have designed procedures to mitigate the risk of material misstatement. Audit testing was completed by the audit fieldwork team and reviewed by the audit manager and audit partner. Our audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We performed audit procedures on all transactions and balances that exceeded our performance materiality. This meant that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Calculation of performance materiality (£million)

Area risk assessment	Weighting	Performance materiality (£million)
High	50%	4.750
Medium	65%	6.175
Low	85%	8.075

Qualitative aspects of accounting practices and financial reporting

62. 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.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Significant estimates have been made in relation to property plant and equipment, provisions, pension liabilities and arrears. We consider the estimates made, and the related disclosures, 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.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements (beyond the existing disclosures made).
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 are no misstatement or material inconsistencies with the financial statements 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.

Charitable trust funds

63. The Council administers 36 sundry trust funds, 12 of which are registered with the Office of the Scottish Charity Regulator (OSCR). The Council also administers 34 educational trust on behalf of North and South Lanarkshire Councils which are consolidated into one Trust; the Lanarkshire Educational Trust (also known as the North Lanarkshire Council Educational Endowments). The Lanarkshire Educational Trust is also registered with OSCR. The total trust fund balance as at 31 March 2014 amounts to £1.279 million of which £1.212 million relates to registered charitable trust funds.

64. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. 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.

65. We have audited the Council's 2013/14 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust fund financial statements (13 in total);

- As noted above the Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973. Section 106 of the1973 Act applies the accounting and audit requirements of the Act to any trust fund where an authority or some members of an authority, are the sole trustees. Section 106 may also apply where a local authority officer is a trustee if that officer is acting as the authority. The trustees for the Council's charitable trust funds are officers of the Council, acting as the authority.

- The Council is also required to comply with the Local Authority Accounts (Scotland) Regulations 1985 in respect of its charitable trust funds. These Regulations cover the submission of the financial statements to the Controller of Audit and the subsequent public inspection of the unaudited financial statements. The Council submitted the unaudited financial statements for the 12 charitable sundry trust funds to the Controller of Audit by 30 June 2014. Financial statements were not however submitted in respect of the Lanarkshire Educational Trust. The Lanarkshire Educational Trust is managed by a Joint Committee comprising representation from North Lanarkshire Council and South Lanarkshire Council. The Council therefore believed that as they were not the sole trustee for the Trust, section 106 of the 1973 Act did not apply. The Educational Endowments (Strathclyde Region) Transfer Scheme Order 1996 however sets out the governance arrangements for this Trust. Notwithstanding the requirement to establish a joint committee (with representation from North Lanarkshire Council and South Lanarkshire Council) the Order states that North Lanarkshire Council is the governing body of the Lanarkshire Educational Trust. The Council submitted unaudited financial statements to the Controller of Audit on 13 August 2014. A public inspection period for the unaudited accounts followed this.

- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds. We did however identify a number of observations for which there is scope for improvement over the control framework. These have been reported separately to the Trustees.

Reorganisation of the Council's charitable trust funds

66. The Council are working towards consolidating all charitable 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 funds and aim to achieve efficiencies over the administration of the funds. In 2011/12 an application was submitted to OSCR for this arrangement; this however was declined.

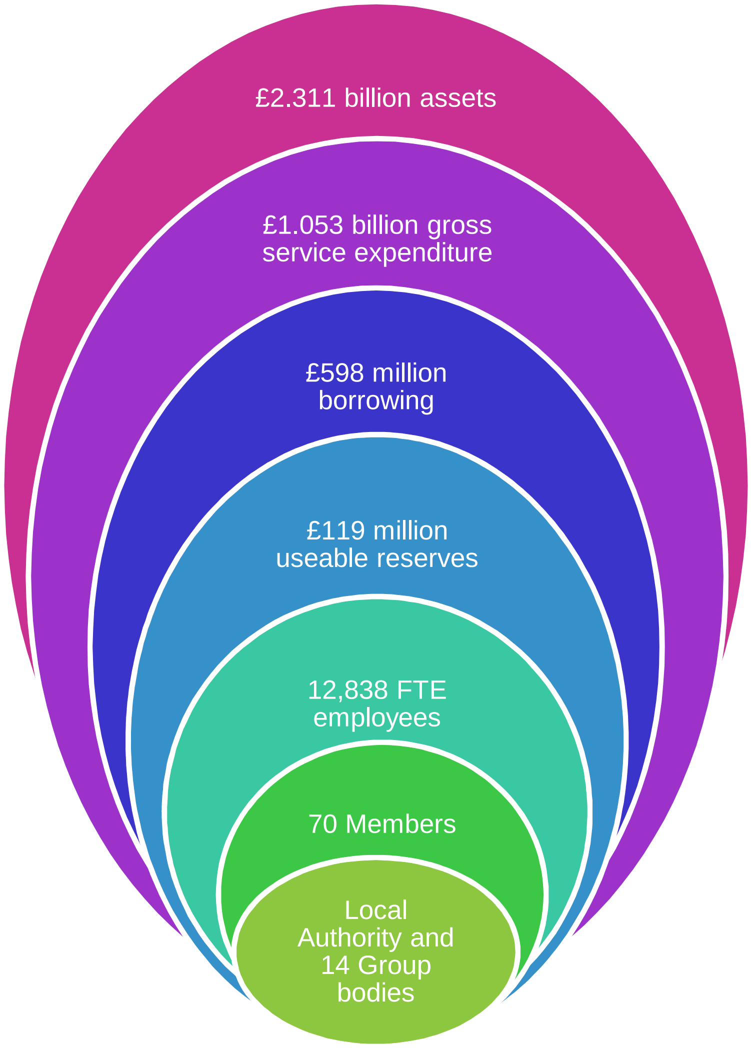
67. The Council has continued to discuss this with OSCR. However given the existing conditions attached to these funds and their relatively small value this has proved challenging.

Action plan point 4

Use of resources

The Council's financial performance in 2013/14

68. In 2013/14, as recorded in the comprehensive income and expenditure statement, the Council spent £1,052.654 million on the provision of public services, resulting in an accounting deficit of £32.681 million. However this includes certain elements of income and expenditure that are accounted for in such a way to comply with the Code of Practice on Local Authority Accounting (the Code), and which are then adjusted to show their impact on statutory council reserves. Following these adjustments the net impact is a decrease in the general fund balance of £4.279 million. The budget set for 2013/14 was based on a Band D council tax of £1,098 (unchanged from 2012/13).

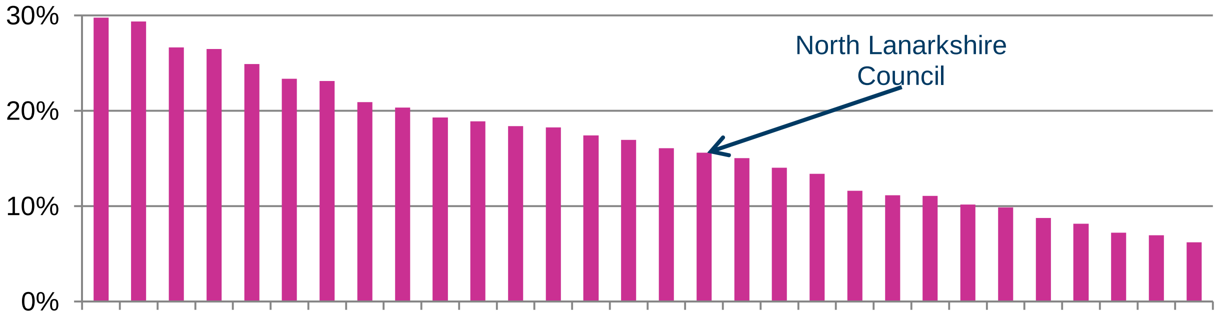


69. The overall level of cash backed reserves held by the Council increased by £15.642 million compared to the previous year and totalled £119.148 million. This movement was largely attributable to an increase in the capital fund in which a capital receipt of £45 million was deposited following the transfer of the Council's investment properties to NL Properties (paragraph 33 - 35).

Source: North Lanarkshire Council Annual Accounts 2013/14	2013/14 £ million	2012/13 £ million	Movement £ million
General Fund	75.021	79.300	(4.279)
Housing Revenue Account	9.577	8.868	0.709
Capital fund	19.008	1.429	17.579
Capital grants unapplied account	2.762	1.343	1.419
Insurance fund	11.658	11.602	0.056
Repairs and renewals fund	1.122	0.964	0.158
Total usable reserves	119.148	103.506	15.642

70. The Council's useable reserves, as a percentage of the net cost of services, against 29 other local authorities[5] is shown below. North Lanarkshire Council's ratio (16%) is within one percent of both the mean and the median for the sector in 2013/14.

Local authority useable reserves as a ratio of net cost of services

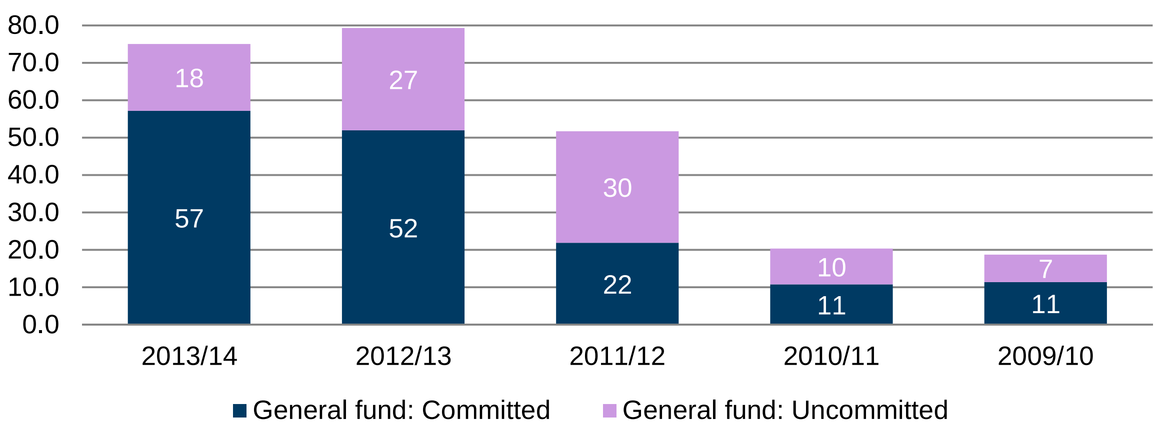


Source: Scottish local authority unaudited accounts 2013/14 – as provided by Audit Scotland

71. The Council's general fund balance did however decrease in the year. The Council's general fund balance brought forward at 1 April 2013 of £79.300 million decreased to a cumulative net surplus of £75.021 million at 31 March 2014. £57.191 million has been earmarked for specific commitments (76%), with the remaining £17.83 million remaining uncommitted. The balance of uncommitted general fund balance is above the Council's approved reserve level of £12 million.

72. The Council's general fund has risen by £56.278 million since 2009/10, with annual increases observed in each year up to 2012/13. In each of the last three years the uncommitted general fund balance has been in excess of the approved reserves policy; although the level has been reducing year on year. The Council reviews the level of general fund held annually as part of the budget setting process. Historically the general fund has been around 2% of the baseline revenue budget (which equated to approximately £15 million in 2013/14). The Council consider an uncommitted general fund balance of £12 million to be reasonable given recent financial performance.

North Lanarkshire Council general fund committed and uncommitted balances (£million)



Source: North Lanarkshire Council annual accounts 2009/10 to 2013/14

[5] Shetland and Orkney Islands Councils have been omitted from the comparison as their level of reserves may distort the assessment.

73. As the general fund balance has risen (in previous years), so has the level of committed resources. As a result, the effective monitoring of committed general fund balances (earmarked funds) has become increasingly important. The Policy and Resources (Finance & Customer Services) sub-committee receives updates on the use of some earmarked funds as part of the revenue budget monitoring reports. The provisional outturn report (May 2014) included commentary on the use of £19.474 million set aside in 2012/13 to support change management and £6.5 million set aside to support 2013/14 budget initiatives and the final outturn report provided additional detail on other earmarked funds.

Movement in committed funds

Source: North Lanarkshire Council finance department	**2013/14 £ million**	**2012/13 £ million**	**Movement £ million**
Future budget commitments	15.000	6.500	8.500
Outstanding change management costs	14.159	19.474	(5.315)
Early years change fund	4.487	0.303	4.184
Youth employment	3.827	4.909	(1.082)
ERDF / ESF and regeneration	2.745	2.32	0.425
Waste management fund	2.677	2.741	(0.064)
School carry forward / ICT refresh	2.659	4.815	(2.156)
Winter maintenance	2.5	1.171	1.329
Local area partnership	1.8	0	1.800
Dilapidations fund	1.0	0.872	0.128
Welfare reform	1.0	0	1.0
Other commitments	5.337	8.845	(3.508)
Total general fund commitments	**57.191**	**51.950**	**5.241**

74. In our 2012/13 external audit annual report we recommended that management may wish to consider including an additional reference in its financial performance reports on all transfers to/from earmarked funds during the year. The Council plans to extend its existing monitoring report to include movements on the most significant earmarked funds from period 6 of 2014/15.

Action plan point 5

Budget monitoring and control

75. The Council's overall financial performance is monitored by the Corporate Management Team (CMT) and the Policy and Resources (Finance & Customer Services) Sub-Committee. Individual service financial performance is monitored by the relevant service committee.

76. The Council's Financial Services Division periodically carries out self-assessments against CIPFA's Financial Management Model. This model provides an assessment of the effectiveness of the Council's financial management arrangements. The first assessment took place in 2008/09, with subsequent assessments taking place in 2010/11 and 2012/13. Following the 2012/13 review an action plan was

developed to address areas identified as having scope for improvement. The key actions identified were to:

- ensure that robust arrangements are in place to meet and evaluate required financial competencies;
- demonstrate that users of internal finance services are treated consistently; and
- ensure that financial management experience is used in strategic decision making and performance management is based on an understanding of the financial environment and cost drivers.

77. The next full review against the model is due to take place in March 2015.

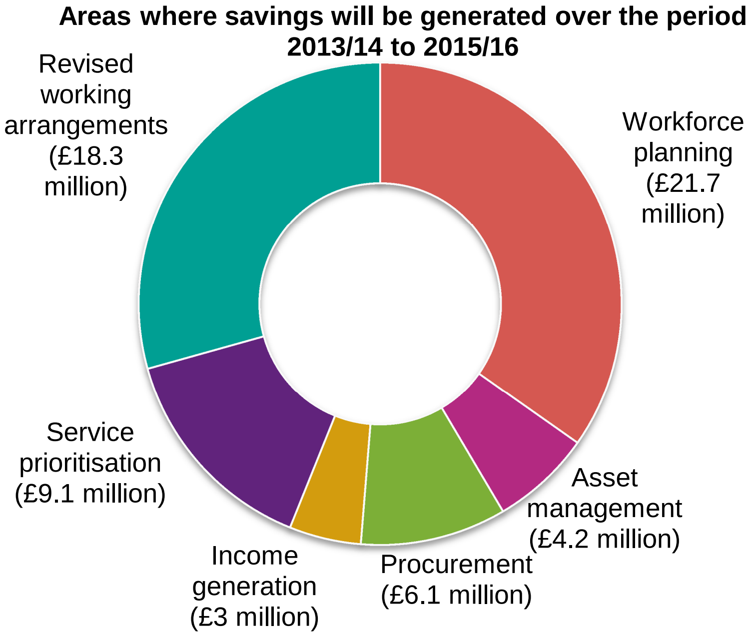
78. The Council has recognised the need to fund the ongoing impact of the provision made for equal pay compensation which has resulted in a temporary deficit for the year. The appropriate action will be taken within the overall financial planning timeframe with £10.845 million being drawn down from the Capital Fund in 2014/15 amending the unallocated cumulative surplus to £16.675 million.

Source: *Financial performance report presented to the Policy and Resources (Finance & Customer Services) Sub Committee in September 2014*	**£million**	**£million**
Approved use of balance in 2014/15 – set aside from 2013/14 surplus to provide additional support to communities		1.450
Welfare reform savings		(1.221)
External interest savings		(2.200)
Over recovery of rental income		(1.500)
Employee cost savings		(7.171)
Departmental underspends		(6.033)
Budget underspend before equal pay		**(16.675)**
General fund provision for equal pay	38.267	
Capital fund contribution	(27.422)	10.845
Final budget underspend		**(5.830)**

79. Over the last three years, the Council has reported a surplus against its annual budget (2013/14 £5.830 million, 2012/13 £15.350 million, 2011/12 £17.776 million). These surpluses equate to the unallocated balance in excess of the approved reserve level of £12 million. Savings associated with employee costs and external borrowing costs have contributed to surpluses in each of the last three years. Savings have been achieved earlier that the annual planned savings programme.

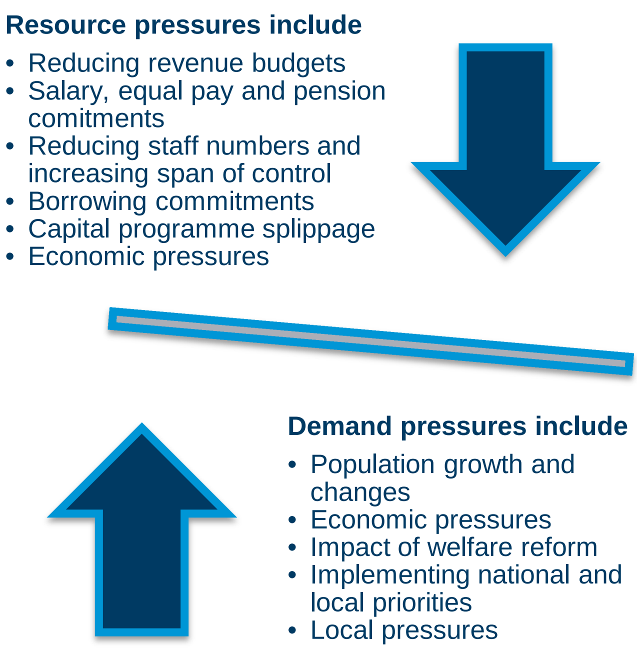
2013/14 – 2015/16 savings package

80. 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, with the required savings spread broadly evenly over each year.



81. The Council set a target of £20.884 million of planned savings in 2013/14. £20.26 million of the planned savings were achieved in the year (97%). £0.447 million of replacement savings were also identified, leaving a gap of £0.177 million which was met through reserves. The approved budget for 2014/15 incorporates £19.618 million of savings.

Future financial projections



82. In May 2014 the Council approved its updated long term financial plan to cover the ten year period 2014-2024. The purpose of the plan is to establish how the Council plans to achieve long term financial stability given the challenging times facing it over the next ten years. The plan also aims to provide scope for the Council to continue to support the strategic priorities and objectives outlined in the Corporate Plan and Community Plan (SOA).

83. The Council recognises that there is a degree of uncertainty involved when planning over an extended period. The ten year plan is regularly reviewed and the assumptions within it are based on the most up-to-date information available. The plan sets out a range of risk based outcomes, presenting the best case, worst case and what are considered the most likely scenarios.

84. The Council estimates that the aggregate external finance (AEF) it receives from the Scottish Government (comprising General Revenue Grant, Specific Grants and Non-Domestic Rates Income) will fall each year between 2016/17 and 2018/19. Given the significance of this funding stream to the Council, there will be significant challenges to face if the Council is to maintain service quality in the face of cost pressures.

Anticipated annual movements in aggregate external finance (£million)

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
0	(1.535)	(10.511)	(5.234)	19.193	31.148	28.237	29.149	34.073

Source: North Lanarkshire Council Long Term Financial Plan 2014-2015 to 2023-2024

85. The plan recognises £205 million of potential cost pressures over the period. The most significant cost pressure the Council faces is on employee costs, the largest single element of the general fund budget, which accounts for approximately 57% of service expenditure. Employee cost pressures are expected to include: pay inflation, pay progression, employer's pension contribution rates, automatic enrolment to pension schemes and changes in employer's national insurance contribution rates. The Council estimates additional employee costs of £93 million over the term of the plan. This estimate assumes:

- there will be no change in the employer's contribution rate (currently 19.3%) to the Strathclyde Pension Fund following the next triennial review, to be published in March 2015;
- £6.6 million additional costs from changes in National Insurance arrangements in 2016/17; and
- £5.2 million additional costs from the auto-enrolment of existing employees to the pension scheme in 2017/18.

86. To reflect the impact of the pressure exerted by employee costs, the worst case scenario considered by the Council includes £19.69 million cost pressures from these three assumptions alone.

87. Under the Council's best estimate, demographic changes will lead to cost pressures of £4 million in 2015/16, with further pressure of a combined £38.543 million over the remaining nine years of the plan. Contract inflation is expected to cost the Council £41.233 million over the ten year period, with a broadly consistent impact in each year.

Service and people first

88. The Council's change management programme, 'Service and People First', was introduced in November 2006 and became operational in April 2007. The programme reached the end of its initial five year time frame at the end of March 2012 and the Council reviewed its impact and progress in two separate reports to the Policy and Resources Committee in March and June 2012. At the Policy and Resources Committee in June 2012 it was agreed that Service and People First should have four key priorities in the five year period 2012/13 to 2017/18: customer focus; workforce development; efficiency and performance driven. This was in recognition of the financial challenges and strategic context within which the Council would require to develop over the six year period.

89. In June 2013 the Policy and Resources Committee agreed a series of governance, programme development and management arrangements to further progress Service and People First. Included within these proposals was the establishment of a Service and People First Member Officer

Transformation Board to act as an interface between the Policy and Resources Committee and the Corporate Management Team. The Transformation Board's remit is to:

- Oversee development of new work streams to progress the Service and People programme;
- Monitor progress on the Service and People programme; and
- Establish and consider reports from sub groups to secure improvements in specific service areas.

90. The Transformation Board has recently participated in a development workshop, facilitated by the Improvement Service. One of the outcomes from the workshop was a commitment to engage with employees, councillors, the public, partners and the local media through a 'transformation week'. The transformation week will be a significant consultation and engagement event reviewing the Council's progress since Service and People First was introduced; highlighting new and emerging challenges and opportunities; identifying what matters most to stakeholders and developing future priorities and direction. The transformation week is currently planned to take place in November 2014.

Workforce

91. The Council has entered into a number of voluntary redundancy agreements in the year, with a small number of compulsory redundancies also taking place. In total, 153 exit packages were agreed in 2013/14, costing the Council £8.257 million (2012/13: 122, £5.772 million). The cost includes all compulsory and voluntary redundancy costs, pension contributions in respect of added years, any ex-gratia payments and other departure costs.

92. The Council estimates that the staffing establishment has reduced by 9% since 2010/11. 1,912 employees have left the Council since 2010/11, with only three being compulsory redundancies. The exit packages noted above are one contributing factor to the Council having 278 fewer FTE at March 2014 compared to March 2013. This represents an overall reduction of 429 employees, reflecting 738 fewer permanent employees and 309 more temporary employees, as compared to the previous year.

Capital performance

£46.468 million: HRA capital additions

- £39.488 million: Council dwellings and other HRA properties
- £6.98 million: New build council dwellings programme

£44.209 million: General fund capital additions

- £14.525 million: Roads, lighting and infrastructure networks
- £7.412 million: Schools
- £4.342 million: Social work facilities
- £3.519 million: Town centres and other economic regeneration projects
- £2.468 million: Sports and cultural facilities

93. Capital expenditure was £44.209 million on general fund assets and £46.468 million on HRA assets in the year, giving total capital additions of £90.677 million during 2013/14. The Council delivered 92% of the approved general fund capital programme for the year (£48.219 million) and 87% of the approved HRA capital programme (£53.162 million). Capital expenditure in 2013/14 has been funded in broadly equal amounts from borrowing, capital grants and other contributions, and revenue contributions. Capital receipts account for only £5.599 million of the total funding (7%) during 2013/14. There has been a significant drop in the level of external borrowing required, compared to recent years.

94. As highlighted within this report, the Council generated a capital receipt of £45 million in 2013/14 in relation to North Lanarkshire Properties LLP. The 2013/14 capital financing requirement of £27.7 million was therefore able to be funded from internal cash reserves and balances with no additional long term borrowing undertaken.

Future capital plans

95. The Council approved a £344 million, five year capital programme (covering all non HRA capital expenditure) in March 2013. The programme is made up of broadly two components: the continuation of the Schools and Centres 21 initiative; and the composite capital programme. The composite capital programme for 2014/15 totals £46.18 million. The 2014/15 programme for Schools and Centres 21 totals £12.055 million.

Looking forward

Clyde Valley Shared Services – waste plant project

96. North Lanarkshire Council is the lead authority for the Clyde Valley Residual Waste Project. The project aims to deliver long term waste treatment and disposal arrangements that will comply with all current and future legislation on landfill sites, for five participating councils (East Dunbartonshire Council, East Renfrewshire Council, North Ayrshire Council, North Lanarkshire Council and Renfrewshire Council). The project will enable the partner authorities to meet their responsibilities under Scotland's Zero Waste Plan, with the target operational date for the facility being December 2019.

97. The service is being procured through the competitive dialogue procedure, given the complex nature of the requirements. The contract notice for the service was published through the Official Journal of the European Community in January 2013 however was subsequently suspended following the publication of revised guidelines from SEPA. We understand that the procurement process has recommenced.

Hub south west project

98. The Council participates in hub South West. The hub is made up of a number of public sector organisations, the Scottish Futures Trust (SFT) and a consortium of private sector partners. The hub's purpose is to carry out capital projects within the region, including Clyde Valley and Greenfaulds High Schools. The schools are part of the Council's Schools and Centres 21 programme.

99. Following changes to the funding arrangements for the two projects, Greenfaulds High School will now be delivered through a 25 year 'Design, Build, Finance, and Manage' contract. Funding for Greenfaulds is being provided by the Scottish Government. The Clyde Valley Campus project is being delivered through a Design and Build Development Agreement, with funding provided by the Council.

100. During 2013/14, the hub appointed Morrison Construction as the design and build contractor for the Clyde Valley project. Phase one of the development, the completion of the new school, is targeted for December 2015.

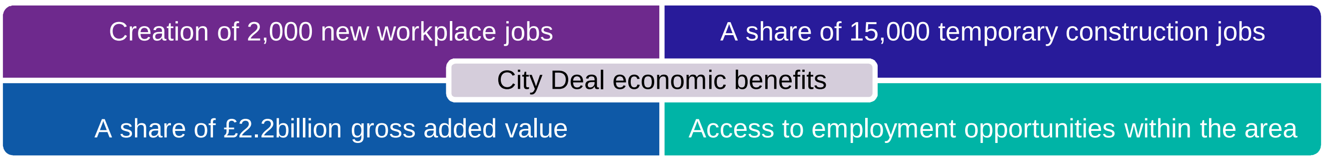
Ravenscraig

101. The Council is committed to the regeneration of the site of former steelworks at Ravenscraig. The regeneration is being progressed under a Tax Incremental Financing Scheme (TIF) whereby the costs of borrowing for the investment will be financed by future non-domestic rates income. The 2014/15 capital plan includes £4.55 million to be used to improve the road infrastructure around Ravenscraig.

102. During the year, internal audit carried out a review of the risk management arrangements for the Ravenscraig TIF. Their scope was to provide high level assurance on the adequacy and effectiveness of the Council's management of key risks associated with the development of the proposed Ravenscraig TIF (Phase 2). Internal audit concluded that substantial assurance could be given over the controls in place, and noted the following areas of good practice:

- A business case and project plan have been developed for the Ravenscraig TIF, including a risk register and explanation of the key risks associated with the project.
- The business case, developed by Ernst and Young through consultation with services from across the Council, is in accordance with the requirements of guidance provided by the Scottish Futures Trust.
- Detailed governance arrangements are in place in relation to the project, including regular meetings between the Council, the developer, the Scottish Government and the Scottish Futures Trust.
- The roles and responsibilities of key staff within the Council in relation to the project are detailed and highlighted within the Project Plan.

Glasgow Clyde Valley City Deal



103. A ‘City Deal’, establishing a £1.13 billion infrastructure fund, was announced in July 2014. The UK Government and Scottish Government will each contribute £500 million of new capital funding over 20 years, to 2035. This funding will be supported by a further £130 million of capital funding from local authorities across Glasgow and the Clyde Valley over the same period.

104. The investment will allow Clyde Valley councils to progress major infrastructure works to: improve the transport network across Glasgow and the Clyde Valley; unlock key development and regeneration sites; and improve public transport. Projects worth £172.5 million to North Lanarkshire will be delivered over the first ten years of the initiative. These projects will be offset by grant income of £149.9 million, leaving a balance of £23.6 million to be funded by the Council.[6]

[6] Source: Glasgow Clyde Valley City Deal, Policy and Resources committee, 14 August 2014

Lanarkshire orbital transport corridor: £119.7million	Gartcosh / Glenboig community growth area: £43.8million	A8 / M8 corridor access improvements: £9million
• Proposed by-pass of the A73 around Airdrie, improved access into Motherwell and improved road and pedestrian links within the town centre.	• New strategic road infrastructure and park and ride to encourage investment in the Gartcosh / Glenboig community growth area.	• New road infrastructure to support the growth and development of business locations on the A8 / M8 corridor.

105. North Lanarkshire will also benefit from other significant capital projects supported by the infrastructure fund (such as the £144.3 million Glasgow Airport Rail Link and the £30million Strathclyde Bus Investment Programme), a Business Innovation and Growth programme and Labour Market schemes. The City Deal will be governed by a 'City Deal Cabinet' comprising one member from each of the seven local authorities involved.

Performance

North Lanarkshire Partnership's vision

Our Vision is that North Lanarkshire in 2022 will be a place where people:

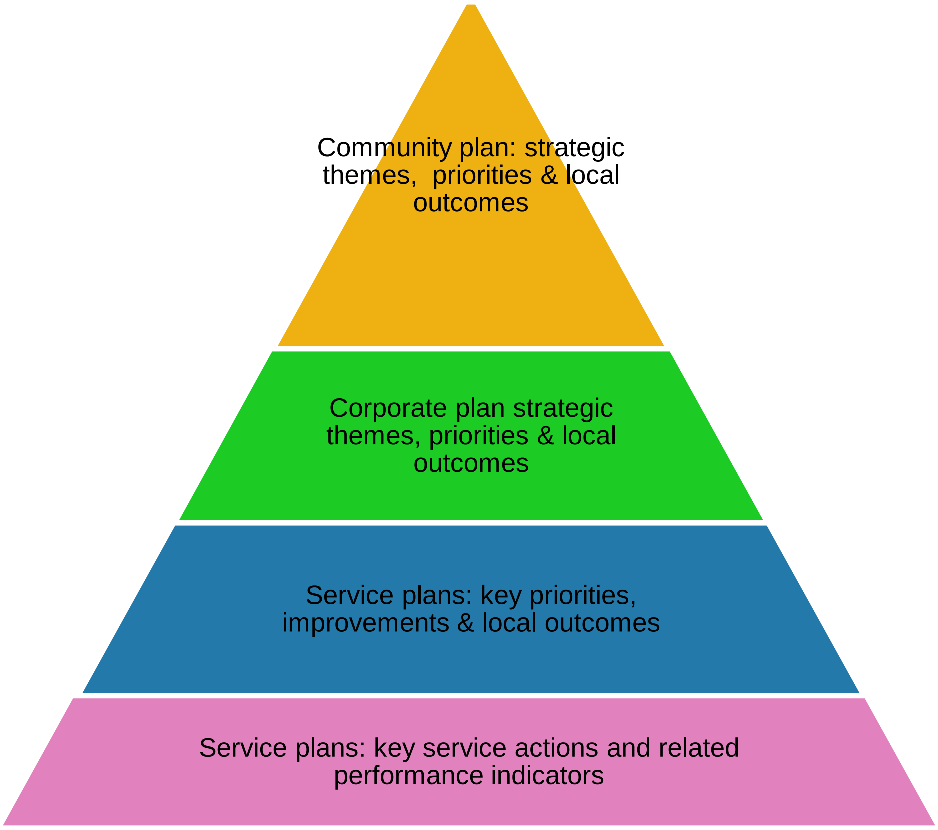
- *want to live because of the range, quality and affordability of the housing available, the safety of our communities, the quality and accessibility of the natural environment, and the quality of amenities and services in the area;*
- *live well because the focus within the plan is on improving health and reducing inequalities ensures their health, wellbeing, and life chances are as good as those elsewhere in Scotland;*
- *choose to do business because support for new and existing businesses, business sites, the transport network and good transport connections and the quality of workforce are second to none in Scotland;*
- *participate in learning at all ages and of life to achieve their full potential;*
- *have a fair chance in life and where factors that currently exist to limit people's opportunities and prospects are overcome; and*
- *particularly our children and young people are safe, nurtured, healthy, achieving, active, respected, responsible and included.*

106. In 2012/13, the North Lanarkshire Partnership revised the Community Plan and SOA and brought these into one document, '*North Lanarkshire Partnership Community Plan 2013-18'*. The Community Plan (SOA) brings together the major public and voluntary organisations in the area and provides a long term vision together with outcomes, indicators and targets by which progress will be measured. The Community Plan (SOA) was subject to a national quality assurance (QA) process. The QA process gave the Community Planning Partnership useful feedback and constructive challenge to help it develop, agree and improve its SOA. The findings of the review also identified improvement actions for community planning in North Lanarkshire:

Proposed improvement actions for community planning in North Lanarkshire:

- The development of data and targets including links between strategic and local targets.
- The development of localised targets and the development of three year targets across the partnership's indicators.
- The need to replicate work on early intervention and prevention across all areas of the partnership.
- The need for overall budget mapping and strategic resource mapping.
- The need to build on existing best practice, including member involvement.

107. The Agreement on Joint Working on Community Planning and Resourcing (published in September 2013 by the Scottish Government and COSLA) is a key element in delivering the Community Plan (SOA). The Agreement highlights the need to mobilise public sector assets, activities and resources together with those of the third sector, private sector and local communities. In January 2014, key members of the North Lanarkshire Partnership Board met to discuss North Lanarkshire's response. Short and long term objectives have been identified.



108. The Community Plan (SOA) sets out five key themes for the North Lanarkshire Partnership; health and wellbeing, lifelong learning, regeneration, community safety and developing the partnership. Aligned to these five themes are partnership groups, each responsible for specific local outcomes within the Community Plan (SOA) and the related QA development areas. These groups will regularly report back to the partnership board on the progress made.

109. The Community Plan (SOA) is underpinned by the Council's Corporate Plan. The strategic priorities outlined in the Corporate Plan are in turn reflected within the individual Service plans. Service plans are produced annually outlining the strategic context, the challenges facing the service, the service's key priorities and improvements for the year, and include a suite of indicators and measures against which performance is monitored. 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.

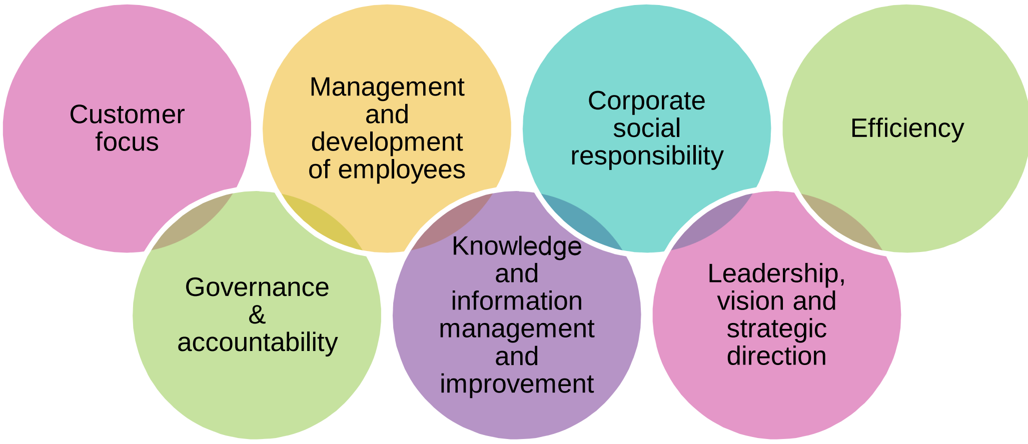
110. Each service reports to a designated service committee. The service committees receive quarterly reports of service performance against the measures within the service plan. Reporting is carried out by exception. Explanations are given for all measures which are above or below the target levels and outwith acceptable thresholds. The Scrutiny Panel has responsibility for monitoring operational performance and policy arrangements linked to the Council's corporate and service plans to ensure that the Council is securing best value.

111. The Council's Corporate Service Improvement Team has overall responsibility for the performance management framework and each service has an assigned Corporate Service Improvement officer to support the delivery of the performance framework.

Updates to the Council's performance management framework in 2014		
The Council's new two-stage complaints handling procedure (introduced in April 2013).	The Council's new approach to self-assessment which concentrates on a small number of corporate assessments rather than the previous service based approach.	Changes to the statutory Direction that outlines the Council's public performance reporting responsibilities.

112. The Council adopted the Public Service Improvement Framework (PSIF) in 2008 and since then has carried out a series of service level self-assessments, CMT assessments and a self-evaluation of the North Lanarkshire Partnership. The Council has built up significant knowledge and experience from these exercises. In order to embed a culture of self-assessment, the Council now plans to carry out, over a three year period, a series of corporate assessments, focusing on the key themes within the PSIF.

PSIF themes



113. The self-assessments will incorporate aspects of the Best Value 2 (BV2) Corporate Assessment Framework and Audit Scotland's best value toolkits. The work carried out will also be consistent with the key aims of the Service and People First programme.

Statutory performance indicators

114. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2012 Direction, which applies to 2013/14, reinforced the Accounts Commission's focus on public performance reporting (PPR) and local authorities' requirement to take responsibility for the performance information they report. As in previous years, performance information must, when considered cumulatively, fulfil the requirements of SPI 1 (Corporate Management) and SPI 2 (Service Performance). In contrast with prior years, the 2012 Direction does not contain a list of specified indicators that local authorities' are expected to report on.

115. In addition to SPI 1 and SPI 2, SPI 3 has been introduced in 2013/14 which requires local authorities' to report performance in accordance with the requirements of the Society of Local Authority Chief Executives (SOLACE) benchmarking framework, also referred to as the Local Government Benchmarking Framework (LGBF).

116. The LGBF was developed by the Improvement Service at the request of SOLACE. The LGBF comprises of a suite of performance indicators which will be comparable across all Scottish local authorities. These have been principally taken from existing sources. For example, a number of the LGBF indicators were previously collected as specified statutory performance indicators. Each of the 32 Scottish local authorities have been allocated to one of four family groups, to allow meaningful local benchmarking[7]:

[7] There are two sets of family groups for each local authority – these are dependent on whether the indicator is influenced by social context/deprivation (e.g. educational attainment) or population density (e.g. roads network). These are respectively classified as family groups for "people indicators" and "other services" by the Improvement Service.

North Lanarkshire Council's 'family' group

North Lanarkshire	Dundee City	East Ayrshire	Glasgow City
West Dunbartonshire	Inverclyde	North Ayrshire	Eilean Siar

North Lanarkshire Council's 'other services' group

North Lanarkshire	Falkirk	East Dunbartonshire	Aberdeen City
City of Edinburgh	West Dunbartonshire	Dundee City	Glasgow City

117. The framework for 2012/13 was finalised in December 2013 with the results published on the Improvement Service website in March 2014 (www.improvementservice.org.uk/benchmarking). The Council provides a link to the Improvement Service website through its own performance web pages. Unfortunately, the reporting timeframe for LGBF data has had an impact on all local authorities' ability to use this comparative information within its PPR material. However, the Improvement Service have committed to making the LGBF results for 2013/14 available by November 2014. This will help local authorities to benchmark effectively against their comparator groups going forward.

118. The Council has identified a range of indicators that it considers meet the requirements of SPI 1 and SPI 2 and supports the PPR requirements in the statutory direction. These are supplemented by LGBF indicators. As part of our annual audit 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 PPR obligations. Our review sought to ensure that the information produced and published is reliable.

119. The Council's internal audit service found that 'reasonable assurance' could be given that the Council has adequate arrangements in place for collecting, recording and publishing 2013-14 performance data. This opinion was however caveated in respect of one measure (teachers' sickness absence) where the Service was unable to confirm the accuracy and completeness of the data underpinning the management reports from which the indicator was calculated. In total four recommendations were made as a result of the review, three of which were classified as low risk and one which was medium risk (in relation to teachers' sickness absence). Internal audit's findings were based on the sample testing of twelve indicators from across the Council's services, of which three were LGBF indicators.

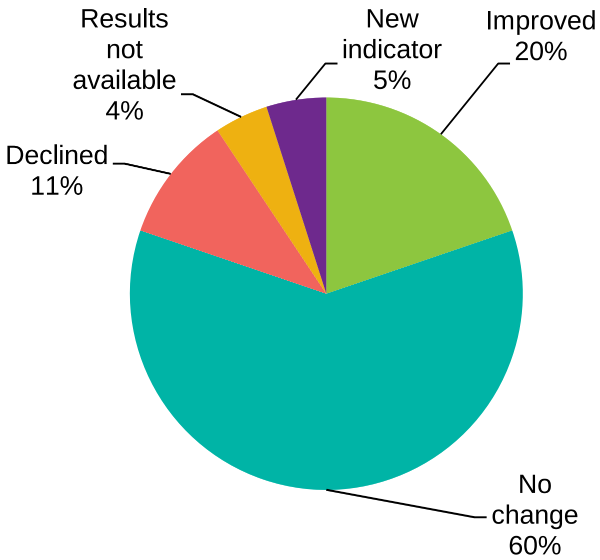
120. Overall, from the sample testing we performed we concluded that the Council has adequate arrangements in place for the collection and publication of accurate and complete information in relation to public performance reporting (SPI 1 and 2) and in relation to the LGBF. In total we carried out a high level review of twenty five indicators, all of which were found to be reliable although we did find a small number of areas for improvement.

Action plan point 6

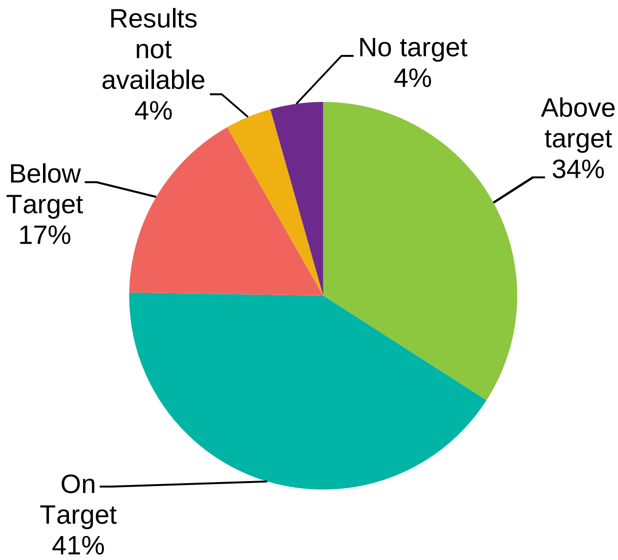
Summary of performance

121. The performance of the Council across all of the performance indicators grouped under the relevant SPI headings is summarised below. Performance compared to the prior period has been broadly positive. In total: for 20% of indicators there was improved performance, for 60% of indicators performance was consistent with the prior year (having a movement of less than 5% in performance); and only 11% of indicator's performance declined. The remaining 9% of indicators were either new in the year, or did not have information available at the time of audit.

Comparison of Council performance indicators against the prior year



Comparison of Council performance indicators against target



122. Performance against target has declined slightly against the position noted in 2012/13. In total, 75% of indicators were on target (within a margin of 5%) or above target for the year (2012/13: 90%). 17% of indicators were below target for the year and 8% of indicators were either not available at the time of audit, or did not have targets set. The indicators without target were principally those related to equal opportunities, such as *"% ethnic applicants applying for post*s".

Public performance reporting

123. The Council published, online, an annual performance report, summarising its performance. The report is publically launched at an annual performance event, which takes place in October each year. The annual performance report was redesigned following public feedback through the citizens panel as well as an internal review process. The Council aim to streamline the report so that it is a shorter, more strategic document. It is expected that the performance report will signpost other sources of information, including the performance and improvement section of the Council's website (http://www.northlanarkshire.gov.uk/performance). To supplement the streamlined report, a series of flyers will also be produced by services.

124. In June 2014 Audit Scotland reported their evaluation of how well councils fulfilled their duties on public performance reporting during 2012/13. This evaluation sought to:

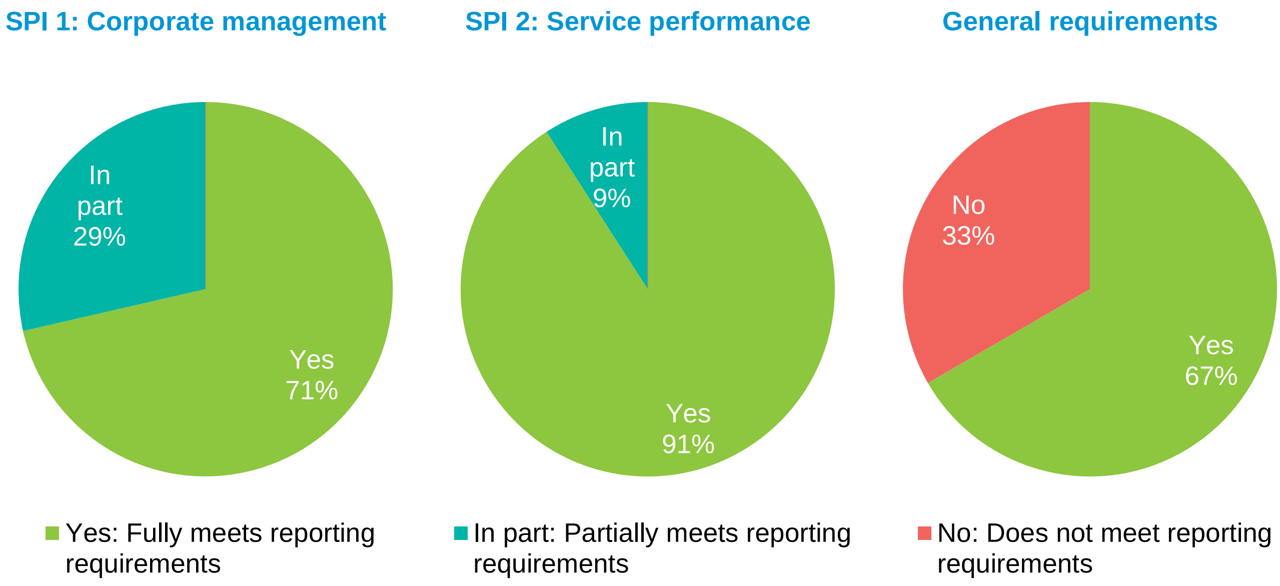
- Provide an update to the Accounts Commission on the development of the Local Government Benchmarking Framework (LGBF);
- Provide an update to the Accounts Commission on how the approach to evaluating and supporting PPR has developed;
- Provide the Accounts Commission with an assessment of the quality of PPR against the corporate management themes under SPI 1 and the service performance themes under SPI 2, as set out in the Direction; and
- Identify where there has been improvement in how local authorities are reporting their performance and where improvement is still required.

PPR: North Lanarkshire Council's good practice, identified by Audit Scotland

- **General:** Good narrative, performance compared against targets and previous years and reported with a traffic light system.
- **Equalities and diversity:** additional indicators on ethnic minorities and disabled recruitment, and percentage of female head teachers.
- **Cultural & community services:** additional indicators on school visits to museums , % borrowers, no. of library transactions, e-info hits, learning centres, and outdoor centre usage.
- **Protective services:** Additional indicators on food hygiene, trading standards inspections, pest control and environmental crime.

125. 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 Indicators 1 & 2. The only area that Audit Scotland found not to be met was that the Council did not compare its performance against other councils or service providers. This requirement should be at least partially met for 2013/14 through the LGBF.

Audit Scotland's assessment of PPR arrangements, 2012/13



Best value

126. An annual corporate assessment and 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.

127. The Council expects services to continue to deliver best value in their areas. This 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 first four themes within 'service and people first' provide members with some assurance on the delivery of best value within North Lanarkshire Council. Through effective delivery of these indicators the Council can demonstrate the achievement of the principles of best value to its stakeholders.

Audit Scotland national performance audit reports

Recent Audit Scotland national performance audit reports

Major capital investment in councils March 2013	Maintaining Scotland's roads May 2013	Managing early departures May 2013	Housing in Scotland July 2013	Charging for services: are you getting it right? October 2013
Scotland's public sector workforce November 2013	Reshaping care for older people February 2014	Options appraisal: are you getting it right? March 2014	An overview of local government in Scotland March 2014	

128. Audit Scotland produces a number of national performance audit reports each year. All local authorities are encouraged to review the national reports and, where appropriate, identify improvement actions. North Lanarkshire Council has an established process in place for considering these national performance audit reports. All relevant national performance audit reports (including those produced by the Audit Commission, such as *Protecting the Public Purse*) are presented to its Audit and Governance Panel. The Panel receives a management overview of the report, highlighting key issues, and where appropriate a management assessment against the report's findings. Committee minutes demonstrate that appropriate scrutiny is given to Audit Scotland's national performance audit reports.

Arms-length external organisations: Are you getting it right?

129. Arms-length external organisations (ALEOs) provide recognised 'council services', for example, leisure services but they can also manage commercial organisations such as exhibition facilities and commercial properties. While the ALEO is responsible for services, the council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides.

130. In fulfilling their statutory responsibilities for best value, councils should consider options for delivering services and those options may include ALEOs. ALEOs can offer an alternative to more traditional 'in-house' or contract-based services and usually take the form of companies and trusts. There may be benefits in this approach, but there are also risks.

131. In 2011, the Accounts Commission published '*Arms-Length External Organisations: Are you getting it right?*[8]' This 'How Councils Work' report covers good practice in setting up and running ALEOs.

132. As part of our 2013/14 audit, Audit Scotland has asked local auditors to carry out a targeted follow up review on the use of ALEOs by councils. The aim of the targeted follow up work is to:

- Provide the Accounts Commission with a position statement on councils' use of ALEOs and, in particular, on progress since the 'How Councils Work' report on ALEOs was published in 2011.

[8] How councils work: An improvement series for councillors and officers – Arm's-length external organisations: Are you getting it right?, June 2011 http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf

- Inform the Commission's consideration of ALEOs in the context of the public audit model.

133. The findings from our review were presented, in a separate report, to the Council's Audit and Governance Panel in 2014. Overall we commented positively on the Council's arrangements for overseeing ALEOs.

Advanced practice

During our targeted follow up review we noted the following advanced practice adopted by North Lanarkshire Council:

In November 2012, a paper was presented to the Audit and Governance Panel, which outlined proposals on how the Panel might seek and obtain assurance on the governance arrangements of those bodies whose accounts are consolidated within the Council's annual accounts and which are covered by the Annual Governance Statement prepared by the Council.

The proposals included:

- Minutes and reports from the ALEOs' audit committees are reviewed annually by Council management in order to identify whether any significant governance weaknesses have arisen during the year;
- The lead Executive Director with monitoring responsibility for the ALEO confirming, as part of the internal annual assurance processes, that appropriate financial and operational reporting arrangements are in place for such bodies and these have operated effectively throughout the year;
- Senior representatives from each significant ALEO are invited to complete a corporate governance assurance statement annually reflecting on the adequacy and effectiveness of the internal control and governance arrangements within their organisation; and
- Inviting senior representatives from significant ALEOs to attend and speak to reports prepared for the Panel on how the ALEO self-assesses the adequacy and effectiveness of their corporate governance, performance management, and risk management arrangements.

We have confirmed that these arrangements have operated since 2012/13. In August 2013, for example, the Manager from Culture NL attended the Audit and Governance Panel to present their self-assessment report and answer specific questions from the Panel. Similarly, in February 2014 the Chief Executive and Finance Manager from North Lanarkshire Leisure Limited attended the Audit and Governance Panel to present their self-assessment report.

Source: *External Audit Targeted Follow Up 'Arm's-length external organisations: Are you getting it right?', May 2014*

134. Our report included a number of recommendations which management have agreed to take forward over the coming year to further develop those arrangements. In particular, management has committed to developing more formalised guidance to support services in monitoring ALEO performance.

Assurance and improvement plan update 2014-17

135. The Local Area Network of scrutiny partners for the Council conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2014 to 2017. This

was published on Audit Scotland's website and was submitted to the Policy and Resources Committee in June 2014 for information and consideration by elected members.

136. The 2014-17 Assurance and Improvement Plan (AIP) notes that North Lanarkshire Council continues to demonstrate strong governance and planning arrangements resulting in continuous improvement since the last AIP in 2013/14. As a result of the shared risk assessment undertaken by the local area network, no formal scrutiny response has been identified for the period 2014-17.

Governance

137. 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

138. We have reviewed the Council's overall governance arrangements. This has included consideration of the Council's arrangements as they relate to standards of conduct including the prevention and detection of bribery and corruption, the prevention and detection of fraud and irregularity and risk management. Based on our review, we consider overall governance arrangements to be adequate and appropriate.

139. 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 risk management framework and 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.

140. During the year there have been changes in the Council's Corporate Management Team (CMT). In June 2013 the Head of Legal Services was appointed as Executive Director, Corporate Services, following the retirement of the previous director. In turn a new Head of Democratic and Legal Services was appointed. In September 2013, again due to the incumbent retiring, a new Executive Director, Learning and Leisure Services was appointed. In April 2014 the Council also appointed a new Head of Social Work Services after the previous post holder was appointed as Executive Director, Housing and Social Work Services.

141. We are pleased to note that these important positions have been filled and the Council has largely addressed the succession planning issues that it faced a few years ago. The changes are still relatively recent and whilst the new leadership team appears to be operating well we will continue to monitor how effectively they take the Council forward.

Governance framework

North Lanarkshire Council			
Service committees	**Policy and Resources committee**	**Audit and Governance Panel**	**Scrutiny Panel**
• Plan, set targets, and monitor the performance of services • Supervise and oversee services • Discharge delgated functions of the Council	• Guides the Council in the formulation of its policy objectives and priorities • Supported by a number of sub-committees	• Reviews and monitors the risk management framework • Considers issues arising from Annual Accounts	• Monitors the implementation of the Community Plan & Corporate Plan • Monitors the performance of all services

142. In previous years, internal audit has carried out a series of reviews on the Council's governance arrangements against each of the six principles from the Delivering Good Governance in Local Government Framework (produced by CIPFA in 2007). Internal audit completed these reviews in 2012/13. A paper is due to be presented to the Council's Corporate Management Team in relation to how best to review Council performance against the good governance framework, along with an annual report to the Audit and Governance Panel in the November/December committee cycle. Any proposed work will be complemented by the work of internal audit who intend to review the Council's governance arrangements against a sample of good governance principles as part of their 2014/15 annual plan.

Local authority boundaries

143. The Local Government Boundary Commission, through the Fifth Reviews of Local Government Electoral Arrangements, has proposed changes that would lead to an increase in councillor numbers from 70 to 77 for North Lanarkshire Council. In response to the proposals, the Council convened a member/officer working group to give detailed consideration to the consultation document and to submit a response on the Council's behalf.

144. The Council has reconsidered its initial position and does not now support the proposal that there should be an additional seven councillors in North Lanarkshire. It has advised the Boundary Commission accordingly.

COSLA membership

145. In line with a number of Councils in the region, North Lanarkshire Council has considered its membership of COSLA. Following debate in March 2014 the Council voted to remain a member.

Member training

146. Corporate Services produces an annual training and development programme in consultation with elected members. Learning and development packs are issued to all elected members that include; role descriptions, the competency framework, briefing notes and Improvement Service notebooks. A personal development plan template, which has been in use since 2012, has again been provided to elected members for 2014/15 to refer to when considering their development needs. Fourteen training sessions were delivered in 2013/14. 66% of elected members attended at least one session; compared to 96% in 2012/13 (the last full Council election took place in May 2012). Twenty two training and development sessions have been planned for 2014/15.

Health and social care integration

147. The Public Bodies (Joint Working) (Scotland) Bill was introduced to Parliament on 28 May 2013. The Bill's aim was to drive integration between local authorities and health boards as a means of improving outcomes for service users. The Council has agreed with Lanarkshire Health Board that integration will be undertaken through the 'body corporate' model. This will involve the delegation of some Council functions and resources to a separate corporate body, which will be governed by a joint board and will be headed by a Chief Officer.

148. In February 2014 the Policy and Resources committee approved the creation of a (shadow) Transition Integration Board (TIB). The TIB comprises four elected members from North Lanarkshire Council (the Depute Leader and three elected members) and four members nominated by Lanarkshire Health Board. The TIB's primary responsibilities are to:

- Appoint the Chief Officer and Head of Community Care;
- Develop an integration scheme (outlining the model of integration) for approval by the Council and Lanarkshire Health Board; and
- Develop a strategic plan (with a related consultation plan) for approval.

149. Discussions are ongoing over the specific services that will be transferred to the joint board and the proposed management arrangements and structure. While there is an aspiration to integrate service delivery, no council employees will formally transfer to the new body. To date the Chief Officer and Head of Community Care have been appointed.

150. The Scottish Government has issued two sets of draft Regulations for consultation. The TIB will provide a partnership response to those Regulations. The Scottish Government has also provided more information about intended timescales for implementation. The integration scheme must be approved by the Scottish Government by 1 April 2015 and full implementation is required by 1 April 2016.

Systems of internal financial control

151. In line with International Standards on Auditing and to facilitate an efficient audit we have considered the internal controls in place over the Council's key financial systems. As reported in our interim management report, we did not identify any significant deficiencies in the operation or design of the key financial systems. We did however identify 'important'[9] weaknesses during our application and interfaces review of eFinancials:

Application and interfaces review of eFinancials

152. Our findings were separately reported to the Audit and Governance Panel. The eFinancials system comprises a number of modules including a purchase ledger, sales ledger and general ledger. eFinancials is the main source for financial reporting within the Council. There are a number of other feeder systems throughout the Council through which financial information is recorded. These include systems such as payroll, social care and repairs. It is essential that there are adequate controls in place for the management and control of eFinancials as well as the feeder system interfaces to ensure the integrity of financial data.

153. The table below highlights the areas of good practice and areas for scope for improvement which we identified during our audit. In total we made fifteen recommendations, of which three were raised as important weaknesses that needed to be to be addressed and resolved urgently. Management has committed to implementing, or has already implemented, a range of actions designed to address the weaknesses identified.

[9] Refer to appendix 2 – Action plan for definition of an 'important' weakness.

Findings from our application and interfaces review of eFinancials (July 2014)

Areas of good practice	Areas for improvement
• Comprehensive documentation detailing system administration and user procedures • Regular monthly maintenance reports are produced • Robust controls are in place over remote access • The user account management process covering new starts and leavers is well controlled • Current controls prevent the unauthorised amendment of system parameters • The process for checking and loading interface files is well managed • The system has inbuilt data input and validation controls • The data backup process is working well with full mirroring to a secondary site	• Work is required in order to improve the controls over privileged system accounts • The information contained in Gift server files can be easily amended or manipulated by users who have access • eFinancials password settings need to be strengthened • A segregation of duties matrix has not been defined for the eFinancials system • Consideration should be given to grouping user access into more generic roles • The disaster recovery testing currently only includes basic recovery testing from tape • Detailed technical recovery plans need to be created in order to support the high-level disaster recovery plan

Review of internal audit

154. Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. At the Council, the internal audit service is provided by an in-house team.

155. It is essential for effective co-ordination between internal audit and external audit in order to minimise duplication of effort and maximise the benefits of audit. As required by the Code of Audit Practice, we have established appropriate working arrangements with internal audit.

156. In accordance with International Standards on Auditing we have considered the function provided by the in house team and have concluded that the service is fit for purpose. As a result we have placed reliance on the work of internal audit where appropriate.

Risk management

157. The Council's 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.

158. The Council continues to make progress in developing its risk management arrangements. In particular we noted progress in providing training on risk management. E-learning modules have been prepared for staff across the Council. These modules comprise basic risk management modules for all staff and advanced modules for staff with responsibility for managing risk within Services. We did however note that training has not been offered to elected members.

159. During the year, internal audit carried out a review of the Council's risk management arrangements. This was a high level review to ascertain the extent to which the Risk Management Strategy has been implemented by all Services. Internal audit provided an opinion giving only limited assurance, as it found that there are inconsistencies in risk management arrangements across Services.

160. A separate independent review of the Council's risk arrangements has also recently been carried out by Marsh Risk Consulting, the Council's external risk management advisors. This high level review included benchmarking the Council's risk management arrangements against best practice. They concluded that while there are some elements of best practice within the Council's arrangements, they are not adopted or implemented on a consistent basis. Marsh Risk Consulting assessed the Council as having 'entry level' arrangements in place, with significant scope for improvement.

161. Management are currently considering how best to respond to the two reviews. We understand that a report will be submitted shortly to the Corporate Management Team outlining what future actions are proposed and how these will be progressed. We also note that the Audit and Governance Panel has requested that a report be submitted to them by management highlighting the implementation of any planned actions to enable the Panel to monitor how any necessary improvements are being progressed.

Fraud and irregularity

162. In accordance with the Code of Audit Practice, we have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. We have not identified any areas of concern from this review.

163. In 2013, the Audit Commission published "*Protecting the Public Purse*"[10], which reports on the extent of fraud against local government in England. The report includes a checklist for local authorities to assess the effectiveness of their own governance arrangements as they relate to the prevention and detection of fraud. North Lanarkshire Council used this checklist in 2014, the findings of which were reported to the Audit and Governance Panel in February 2014. A number of actions were identified which are to be discussed and progressed by the Corporate Management Team. Further updates will be presented to the Audit and Governance Panel.

National fraud initiative

164. 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. We found the Council's approach to the most recent NFI exercise (2012/13) to be satisfactory, with little or no scope for improvement. As at 31 August 2014 the Council had identified 54 frauds and 121 errors as a result of the 2012/13 exercise. The value of the frauds and errors totalled £236,805, of which £234,786 was in the process of recovery.

[10] Protecting the public purse 2013 'fighting fraud against local government' November 2013, Audit Commission

165. The Council has started to plan for the next NFI exercise (2014/15). Progress was reported to the Audit and Governance Panel in August 2014. The Council has arrangements in place for the submission of all data sets (deadline 6 October 2014), including the discretionary inclusion of personal injury insurance claims. As part of the next NFI exercise, the Council is keen to submit the payroll information for all its ALEOs where the Council provides the payroll service. This will be subject to approval from the ALEOs. The Council are also currently considering whether it will be possible to provide other relevant datasets in respect of ALEOs.

Single fraud investigation service

166. From 1 October 2014 the Council's fraud service will transfer to the Single Fraud Investigation Service (SFIS) under the control of the Department for Work and Pensions (DWP). This will involve eleven employees transferring to the DWP in accordance with the Cabinet Office Statement of Practice. The Council is progressing with arrangements to ensure that the transfer of both staff and workload will not negatively impact on the action being taken to reduce the level of benefit fraud. We will consider the impact of the staff transfer has on the Council's arrangements as part of our 2014/15 audit work.

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

167. In our opinion the Council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by 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.

Appendix 1: Respective responsibilities of the Council and the Auditor

Responsibility for the preparation of the financial statements

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Executive Director of Finance and Customer Services has been designated as that officer within North Lanarkshire Council.

The Executive Director of Finance and Customer Services is responsible for the preparation of the Council's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the financial statements, the Executive Director of Finance and Customer Services is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code.

The Executive Director of Finance and Customer Services is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

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 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- 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.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

Our main responsibilities under the Code of Audit Practice, in respect of best value, use of resources, performance and corporate governance can be summarised follows:

Best value, use of resources and performance

- To participate in arrangements established by the Accounts Commission to co-operate and co-ordinate activity with other scrutiny bodies, and where appropriate Scottish Ministers. These include, in particular, the arrangements established by the Accounts Commission for the planning of local government audit, inspection and scrutiny.
- To review and report on the Council's arrangements to achieve best value (a team from Audit Scotland is primarily responsible for discharging this responsibility).
- To review and report on other aspects of the Council's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources.
- To review and report on the arrangements that the Council has made to prepare and publish statutory performance information in accordance with directions issued by the Accounts Commission.

Corporate governance

- To review and report on the Council's corporate governance arrangements as they relate to:
  - its review of its systems of internal control, including its reporting arrangements
  - the prevention and detection of fraud and irregularity
  - standards of conduct and prevention and detection of corruption
  - the Council's financial position

Appendix 2: 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. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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
1.	18	**Property, plant and equipment** Our testing identified five assets with net book value of £1.611million (as at 31 March 2014) that have not been subject to formal revaluation within the required cycle. All five assets are now scheduled to be revalued during 2014/15. Further work is required to ensure the Council's asset register reflects true account of the Council's asset base (in terms of assets being classified correctly and if required have been revalued at intervals of no more than five years).	Green	These five assets with a net book value of £1.611 million will be revalued as part of the 2014/15 revaluation process. Further work will be carried out to ensure the Council's asset register reflects a true account of the Council's asset base. **Responsible Officer:** Head of Financial Services **Completion Date:** March 2015
2.	21	**Property, plant and equipment** The Council has not fully complied with the Code in relation to the accounting for revaluation gains. A revaluation gain should firstly be used to reverse a previous revaluation decrease or impairment loss recognised in surplus or deficit on the provision of services on the same asset. This however should not exceed the increase that would restore the asset's carrying amount to what it would have been had the original loss not occurred. The Council should ensure it maintains sufficient details for those assets revalued to ensure correct accounting treatment for subsequent revaluation gains.	Green	Current processes will be reviewed and amended as appropriate to ensure treatment of revaluation gains are consistent with the Code. **Responsible Officer:** Head of Financial Services **Completion Date:** March 2015

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
3.	22	**Property, plant and equipment** The Code notes that an asset should not be depreciated until it is available for use, i.e. in a location and condition necessary for operation as intended by management. It is the Council's policy to not commence depreciation on the assets until the accounting period following the one in which the asset was acquired or became operational. While we are satisfied that this treatment did not result in material misstatement in 2013/14, this is not entirely consistent with the provisions of the Code. The Council should update their depreciation policy to ensure it is fully compliant with the Code.	Green	The Council's depreciation policy will be reviewed and amended as appropriate to ensure compliance with the Code. **Responsible Officer:** Head of Financial Services **Completion Date:** March 2015
4.	67	**Charitable trust funds** The Council are working towards consolidating all charitable 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 funds and aim to achieve efficiencies over the administration of the funds. In 2011/12 an application was submitted to OSCR for this arrangement; this however was declined. The Council should continue discussions with OSCR on the consolidation of charitable trust funds.	Amber	Discussions with OSCR have taken place during 2013/14. The Council will continue to work with OSCR to agree a suitable approach to the consolidation of the existing charitable trust funds. **Responsible Officer:** Head of Financial Services **Completion Date:** March 2015

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
5.	74	**Movements on earmarked balances** In our 2012/13 external audit annual report we recommended that management may wish to consider including an additional reference in its financial performance reports on all transfers to/from earmarked funds during the year. The Council plans to introduce such a monitoring report showing all movements on earmarked funds in 2014/15. The Council should provide elected members with information on the movement on earmarked funds throughout the financial year.	**Green**	The Council will continue to report movements on significant earmarked funds within existing revenue monitoring reports to both the Corporate Management Team and Committee. This will take place from period 6 onwards. This will be supplemented by an overview of all earmarked funds within the outturn report at the year end. **Responsible Officer:** Head of Financial Services **Completion Date**: October 2014

Action Plan Point	Para ref	Issue & Recommendation	Rating	Management Comments
6.	120	**Statutory performance indicators** We identified a small number of areas relating to the Council's statutory performance indicators which we consider offer scope for improvement: *Roads - actual investment as a % of steady state figure:* this indicator is collected in accordance with the definition. However, the 'steady state' figure used was taken from the SCOTs Financial Model (2009). There is a risk that this historical data will not provide a meaningful comparator going forward. The Council should investigate whether a more recent comparative figure is available. More generally, the Council should seek to use the most relevant, up-to-date information possible in its performance indicators. *Refuse collection - £ net cost of collection:* We noted that this indicator is collated in accordance with the Council's definition, which includes 'apportioned overheads'. However, the indicator is part of the LGBF which provides a standard definition that excludes 'support costs'. There is a risk that the indicator value is marginally overstated. The updated treatment of support costs under LGBF will also affect other indicators collected by the Council. The Council should review the treatment of support costs across all of the performance indicators it collates, with a view to adopting consistent practices wherever possible.	Green	The Council will consider the areas identified and where relevant take appropriate actions to improve the indicators for 2014/15. **Responsible Officer:** Service Improvement Officer **Completion Date:** March 2015