Scott-Moncrieff
business advisers and accountants

North Lanarkshire Council

Annual report on the 2014/15 audit to the Council and the Controller of Audit

September 2015

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Executive summary

Annual accounts

Our independent auditor's report for the year ended 31 March 2015 gives an unqualified opinion on the annual accounts and an unqualified opinion on other prescribed matters.

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 2014/15 financial statements.

The annual accounts 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.

Financial management

The Council has adequate and effective arrangements in place for managing its financial position and its use of resources.

We have evaluated the Council's key financial systems and internal financial controls and determined whether these are adequate to prevent material misstatements in the annual accounts. We have not identified any significant deficiencies in the operation or design of the key financial systems. Arrangements for prevention and detection of fraud and irregularity are operating effectively.

We have concluded that the Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards and as a result we were able to place reliance on the work of internal audit where appropriate.

The Council's arrangements for the 2014/15 National Fraud Initiative exercise are adequate. A report, prepared by internal audit, is due to be presented to the Audit and Governance Panel in November 2015 in respect of the Council's participation and outcomes from the NFI exercise.

- **The Council spent £1billion on the provision of public services in 2014/15.**
- **Cash backed reserves held by the Council were £95million as at 31 March 2015; of which £64million relates to general fund balances.**
- **During 2014/15 the Council invested £113.455million in property, plant and equipment.**
- **Between 2005/06 and 2014/15, the Council has paid out £40.031million in respect of equal pay compensation claims to over 6,500 claimants.**
- **In addition, the Council has provided for a further £78million in its annual accounts for equal pay compensation claims. Since the balance sheet date, the Council has paid out £57million to 4,387 individuals. Further payments have yet to be made.**
- **90% of the Council's savings target was met in 2014/15; through a combination of planned savings and replacement savings.**
- **The Council's three year savings package ends in 2015/16. The Council approved approximately £15million in savings in order to deliver a balanced budget in 2015/16.**
- **A savings plan is being developed for the two year period to 2017-18. Early indications are that £80million will need to be identified during this period to address a budget shortfall.**
- **At the end of March 2015, over half of the Council's performance indicators were on target, with a further 21% exceeding target.**

Financial sustainability

The Council sets an annual budget and has well developed medium and long-term financial plans. Its long term financial plan covers the ten year period 2014-2024. The Council's financial strategies set out the commitments, strategic priorities, cost pressures as well as projected income over a period of time. These plans allow the Council to identify the funding shortfalls that it faces over time and to devise an appropriate course of action to address the funding gaps.

In November 2014, a 'one vision' consultation took place, which involved a series of workshops and focus groups with a range of stakeholders. The results of these sessions fit well with the development of the Council's savings strategy for the two year period commencing April 2016. Early indications are that £80million will need to be saved. Work is ongoing to identify and consider the savings options available.

The Council is making good progress overall towards setting up and transferring services to the new integrated joint board for health and social care services. A number of significant challenges, however, remain to be resolved. The Council, South Lanarkshire Council and Lanarkshire Health Board are working in partnership to ensure a consistent approach is implemented across the region. The Council expects to notionally transfer around £140million during the shadow year (2015/16).

Governance and transparency

In our opinion, the Council's corporate governance arrangements as they relate to the standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate. The Council acknowledges that risk management arrangements require further development.

The Executive Director of Regeneration and Environmental Services has been appointed Chief Executive and will take up post in October 2015. The appointment of the new Chief Executive will further consolidate the relatively new leadership team.

During the year we undertook a review of the Council's decision to amend its existing housing and non-housing property repairs contract. Although the Council responded in a pro-active manner and assessed that the costs of varying the contract were less than allowing the partnership to fail and re-tendering the contract, our review concluded that some concerns existed over the content of reports presented to committee. Additionally, without going out to the open market it was not possible to conclude that the option to vary the contract provided the optimal solution. In response to our report, the Chief Executive has presented a report to the Audit and Governance Panel detailing lessons learned and areas for improvement. Those areas for improvement have been incorporated into an action plan which will be monitored by the Audit and Governance Panel.

Value for money

The Council demonstrates continuous improvement in the delivery of its services. The Council's three year improvement plan outlines at a summary level the improvement planned between 2015 and 2018. The plan is consistent with the Council's wider aims and objectives. The Council has adopted the Public Service Improvement Framework (PSIF). The Council has applied this framework since 2008; carrying out a series of service level self-assessments. It is now concentrating on a small number of corporate assessments, over a three year period, against the key themes within the PSIF.

In June 2015 Audit Scotland reported its evaluation of how well councils fulfilled their duties on public performance reporting during 2013/14. Audit Scotland's evaluation of North Lanarkshire Council is broadly in line with the assessment in 2012/13. Although generally positive, there remains scope for further improvement.

Based on our audit work, we concluded that the Council has adequate arrangements in place for the collection and publication of statutory performance indicators.

Conclusion

This report concludes our audit of North Lanarkshire Council for 2014/15. 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.

Scott-Moncrieff
September 2015

1 Introduction

Introduction

1. This report summarises the findings from our 2014/15 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 2014/15 have been:

   - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
   - An audit of the annual accounts, 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, the Council's internal audit service and Audit Scotland.

4. The Local Area Network (LAN) of scrutiny partners for the Council conducted a shared risk assessment and produced a Local Scrutiny Plan (LSP) for 2015/16. The LSP replaces the three year Assurance and Improvement Plan that was produced in previous years. The LSP was published on Audit Scotland's website in March 2015. The LSP, along with the National Scrutiny Plan was presented to the Council's Audit and Governance Panel in April 2015 for information.

5. The 2015/16 LSP notes that the LAN has identified no major risks at the Council but noted areas which require further monitoring via on-going links which are already in place.

6. These include the external auditor's monitoring of:

   - the evolution and impact of the new management team;
   - the ongoing effectiveness of the Audit and Governance Panel; and
   - the Council's decision whether to vary the housing and non-housing property and repairs maintenance contract.

7. We have provided an update on these matters within this report.

8. The Council is responsible for preparing annual accounts 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 annual accounts 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.

9. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the Council assess their significance and prioritise the actions required.

10. 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.

11. We would like to thank all members of the Council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

2

Annual accounts

Annual accounts

12. The Council's annual accounts 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 annual accounts are outlined in Appendix 1.

13. In this section we summarise the issues arising from our audit of the 2014/15 annual accounts.

Overall conclusion

An unqualified audit opinion on the annual accounts

14. The annual accounts for the year ended 31 March 2015 were approved by the Audit and Governance Panel on 29 September 2015. Our independent auditor's report gives:

- An unqualified opinion on the annual accounts; and
- An unqualified opinion on other prescribed matters.

Good administrative processes were in place

15. 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.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 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 £62.4million. 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 2014/15 External Audit Plan

17. During our audit we considered the Council's financial position, savings, related budgets and projections to ensure that they are soundly based. We have concluded that the Council has adequate arrangements in place for managing its financial position and its use of resources. Our findings are reported more fully in the 'financial management' and 'financial sustainability' sections of this report.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

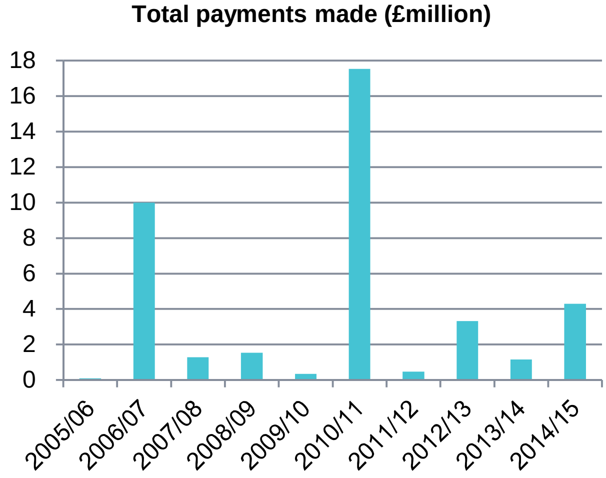
1.2 Equal pay

In 2013/14, in light of developments associated with equal pay claims received by the Council and other organisations and after taking advice of external legal experts, Simpson & Marwick, the Council determined that an additional provision of £39.587million be recognised in respect of equal pay in its 2013/14 annual accounts. This brought the total provision on the balance sheet as at 31 March 2014 to £47.5million. Tribunal hearings are scheduled for early 2015. The Council has however made offers to claimants to settle out with the hearings.

There is a risk that the Council's accounting treatment and disclosure in relation to equal pay in its annual accounts does not comply with the relevant accounting standards.

Noted in 2014/15 External Audit Plan

18. Payments in respect of equal pay claims have been made by the Council spanning a number of years and for rated as equivalent, equal value, pay protection and job evaluation challenges. Over the ten year period, commencing 2005/06, the Council has charged £118million to its Comprehensive Income and Expenditure Statement in respect of equal pay compensation claims. Between 2005/06 and 2014/15, the Council has paid out £40.031million in respect of equal pay compensation claims to over 6,500 claimants (this includes amounts for solicitor's fees, payments to HMRC and other necessary costs associated with settlement of these claims).



The financing of these claims has been met largely through contingency funds and in-year surpluses. In 2013/14 a capital receipt of £45million was received following the transfer of the Council's commercial property portfolio to a new subsidiary (North Lanarkshire Properties). This was held in the capital fund and drawn down in 2013/14 and 2014/15 to finance principal debt repayments, thereby releasing general fund reserves to fund equal pay obligations.

19. During 2014/15 approval was given to proceed with the settlement of both pay protection and job evaluation challenges lodged by Thompsons, Fox and Partners solicitors and in respect of pay protection only lodged by Digby Brown solicitors. As a result the Council increased its provision by £35.019million, giving a total provision for equal pay compensation claims as at 31 March 2015 of £78.219million. We have performed detailed audit testing on this amount and have found it to be reasonable and fairly stated.

20. Since the balance sheet date, the Council had paid out £57.7million to employees under agreements reached with both Fox and Partners and Thompsons solicitors. These payments compensate 4,387 of the 4,453 individuals being represented by these solicitors.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Signed agreements are still being received and payments being processed. Claimants being represented by Digby Brown solicitors have yet to have payments made to them. This is due to on-going negotiations with this solicitor. There remains the possibility of further claimants coming forward. The Council continue to monitor any on-going equal pay risks and reflect these, as appropriate in the annual accounts.

Action plan point 1

1.3 Revenue recognition

Under international auditing standards, 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 2014/15 External Audit Plan

21. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the Council's revenue recognition policy is appropriate and has been applied reasonably.

1.4 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 annual accounts. 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 annual accounts".

Noted in 2014/15 External Audit Plan

22. While we did not suspect any incidences of management override leading to financial reporting issues, we reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly. Based on our audit work to detect potential material misstatement via a range of controls, we have not identified any indications of such management override during the year.

Our application of materiality

23. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

24. Our initial assessment of materiality for the group annual accounts was £9.2million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to a range of benchmarks (including gross service expenditure, surplus/deficit on provision of services and useable reserves). We consider these to be the principal considerations for the users of the accounts

when assessing the performance of the Council and its group.

25. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below (these were revised following our initial assessment following a review of our Firm's procedures):

Area risk assessment	Weighting	Performance materiality
High	40%	£3.68million
Medium	55%	£5.06million
Low	75%	£6.90million

26. We agreed with the Audit and Governance Panel that we would report to the Panel all audit differences in excess of 1% of the overall materiality figure, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Governance Panel on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

27. We are pleased to report that there were no material adjustments to the draft annual accounts. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

28. We also identified a number of potential adjustments which are not considered material to the annual accounts, 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 annual accounts.

An overview of the scope of our audit

29. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Governance Panel in February 2015. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

30. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

31. Our standard audit approach is based on performing control tests on the significant accounting systems, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report..

Legality

32. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. 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.

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

Other matters identified during our audit

34. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

35. The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014. These Regulations replaced the Local Authority Accounts (Scotland) Regulations 1985. The new Regulations include the requirement for local authorities to:

- Review, at least annually, their system of internal financial control and prepare an annual governance statement; and
- Follow a more detailed process for consideration of the annual accounts, both prior to and after auditing.

36. The Regulations require a local authority to publish its annual accounts along with the accounts of all its local authority subsidiary bodies no later than 31 October immediately following the financial year to which they relate. Arrangements are in place to ensure this requirement is met.

37. As part of our audit we reviewed the Council's compliance with the Regulations, in particular with respect to regulations 8 to 10 as they relate to the annual accounts (as shown in the table below).

Aspect of the Regulations	Compliance
The Executive Director of Finance and Customer Services must ensure that the annual accounts give a true and fair view of the authority (and its group's) financial position and transactions.	Yes
The Executive Director of Finance and Customer Services must certify and submit the annual accounts to the appointed external auditor no later than 30 June.	Yes
The Council must publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.	Yes
The Council (or a committee whose remit includes audit or governance) must consider the unaudited annual accounts at a meeting by 31 August.	Yes
The Council must give public notice of the right of interested persons to inspect and object to its accounts.	Yes
The Council (or a committee whose remit includes audit or governance) must aim to approve the audited annual accounts for signature no later 30 September.	Yes

Management commentary

38. The Local Authority Accounts (Scotland) Regulations 2014 also introduced a new narrative reporting requirement to local authority annual accounts. The requirement to include a management commentary is intended to assist readers in understanding the accounts and the organisation that has prepared them. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts.

39. As part of our audit we also reviewed the Council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance

Circular 5/2015). We considered the extent to which the Council's management commentary included relevant information in respect of:

- The context of the annual accounts;
- Insight into the priorities of the authority and strategies adopted to achieve these priorities and objectives
- Information on future plans
- KPIs which measure progress against objectives/priorities; and
- Information on the principal risks and uncertainties facing the authority.

40. The Council, in the main, addressed the key requirements contained within the Circular but we identified a number of areas where we consider the Council could further develop its commentary in future years. These include:

- More information on the priorities and strategic objectives of the Council;
- More information in respect of the overall group;
- More performance information (both financial and non-financial); and
- More detailed information in relation to the principal risks and uncertainties facing the Council.

Action plan point 2

Annual governance statement

41. 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.

42. 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

43. 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.

Significant trading operations (STOs)

44. In June 2013, LASAAC issued guidance on STOs. This guidance recommended that the identification of a 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. In 2014, the Council's Environment Services Committee reviewed its arrangements over the identification and classification of its STOs against this guidance.

45. From 1 April 2014, the Council replaced its five STOs with one combined STO covering all external services (Building Cleaning, Waste Management and Fleet Operations). The focus on external activities 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 operations 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 the other requirements within the LASAAC guidance were met the Council took the view that the remaining three operations would collectively still be treated as an STO.

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

47. In the first year of operation, the single STO reported a surplus of £0.431million. Incorporated within the surplus of this STO is a reduction in equal pay provision of £0.163million.

Related party transactions

48. The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. During our audit we noted that the amounts disclosed in respect of outstanding balances due from/to related bodies are understated. It was not possible to, for example, reconcile these amounts to the Council's group bodies individual financial statements disclosure on related party transactions.

49. In preparing this note in the annual accounts, information was obtained from the Council's system generated reports. These did not take account of 'manual' accruals prepared by Services. This understatement was not material to the 2014/15 annual accounts.

Action plan point 3

Group accounts

50. The 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) adopted 'new' accounting standards in respect of group accounts. During our audit we confirmed that the Council had complied with these new requirements. Overall, there was no change to the basis of incorporation for the Council's group bodies.

Property, Plant and Equipment

51. During the audit we identified a small number of issues relating to the capitalisation of expenditure and the classification of assets within the fixed asset register which could have impacted on the disclosure and calculation of depreciation. While these matters were not material to the 2014/15 annual accounts, the Council should remind relevant staff of the need to ensure all year-end documentation is completed in an accurate and timely manner.

Action plan point 4

Charitable trust funds

52. 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 trusts 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 2015 amounts to £1.163million of which £1.093million relates to registered charitable trust funds.

53. 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.

54. We have audited the Council's 2014/15 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 annual accounts;
- The Council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- 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 where 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

55. A significant amount of work has taken place in recent months to progress the consolidation of charitable trust funds. OSCR have provisionally agreed the majority of the Council's proposals, subject to the proposed recipients agreeing acceptance of the funds and restricting the funds both by purpose and area, in keeping with the original intention.

56. Of the 12 Charitable Trust Funds, seven applications for re-organisation/ transfer have been approved by OSCR. The deed of amendment that was necessary for one of the sundry trust funds (Shotts War Memorial) has been approved and the transfer of funding is underway. Of the six remaining approved applications, the funds have now been

transferred to the three recipient charities and receipts have been received from them.

57. The five remaining Charitable Trust Funds continue to be discussed with OSCR to identify suitable beneficiaries.

58. The timescale for completion is dependent on identifying suitable beneficiaries, submission to and subsequent approval by OSCR of applications for re-organisation/ transfer and responses from beneficiaries indicating that they are willing to accept the funds with restricted purposes.

59. We are satisfied that the Council has taken reasonable steps to ensure charitable trusts are efficiently and effectively administered.

Looking forward

Transport infrastructure assets

60. It is expected that the 2016/17 edition of the Code will adopt the measurement requirements of the Code of Practice on Transport Infrastructure Assets (the transport code). This will require infrastructure assets to be measured on a depreciated replacement cost basis (currently a historic cost basis). This will have a significant impact on the value of infrastructure assets on local authority balance sheets.

61. This represents a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet as at 1 April 2015.

62. As part of our 2014/15 audit we considered the Council's progress in preparation for the implementation of new requirements.

63. In line with the recommendations in the LAAP Bulletin 100 *Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17* the Council devised a project plan built on the information identified through the impact assessment undertaken to identify gaps in existing information, systems and processes. At the time of our audit the Council was progressing with the implementation of their plan. At present we have not identified major concerns in relation to the Council's arrangements for the implementation of the expected requirements of the Code for transport infrastructure assets. We intend to continue to monitor and report on the Council's progress towards the preparation of the new requirements during the course of our audit appointment.

Follow up of prior year audit recommendations

64. As part of our audit we have followed up on the recommendations raised in our 2013/14 Annual Report. The table below indicates the number of issues that have not been completed. Those actions which are yet to be completed and relate to the following areas:

- Property, plant and equipment (paragraph 51)
- Charitable trust funds (paragraph 55)

Total number of recommendations raised in our 2013/14 Annual Report	Complete	Not yet complete
6	3	3

Qualitative aspects of accounting practices and financial reporting

65. During the course of our audit, we consider the qualitative aspects 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 annual accounts. The following observations have been made:

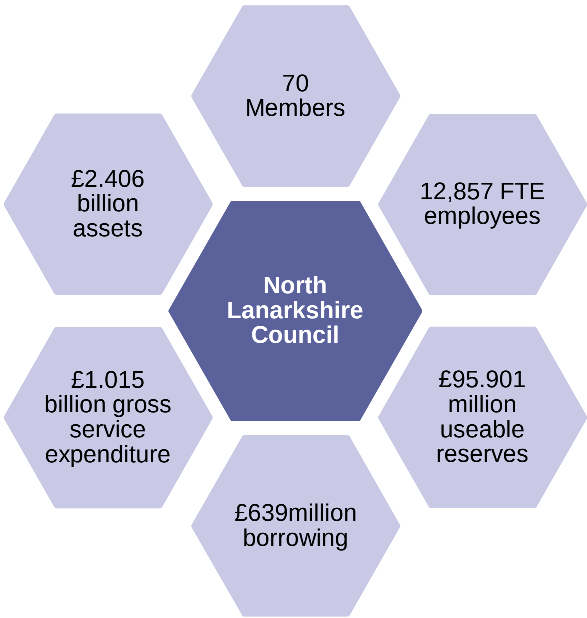
Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the Council.
The timing of the transactions and the period in 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 annual accounts. 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 annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made).
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary.
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.

3

Financial management

Financial management

66. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



The Council's financial performance in 2014/15

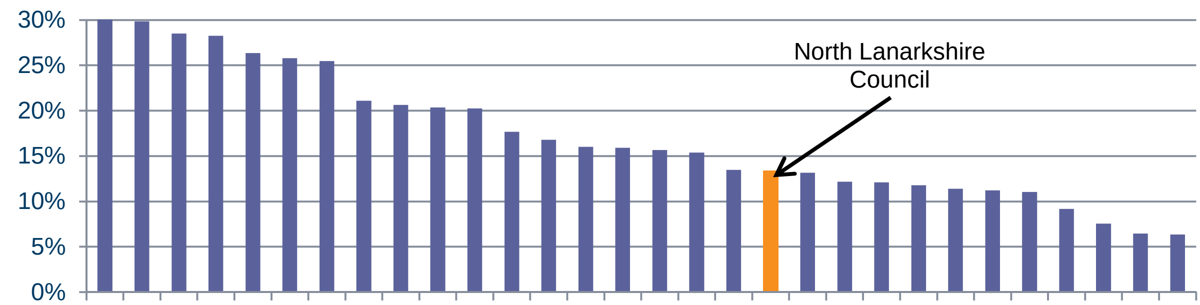
67. The Comprehensive Income and Expenditure Statement for 2014/15 shows that the Council spent £1.015 billion on the provision of public services, resulting in an accounting deficit of £78.384million. However, the accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory council reserves.

68. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments the net impact on the general fund is a decrease of £10.719million to £64.302million. In total the cash backed (useable) reserves held by the Council decreased by £23.247million in the year to £95.901million. This movement was largely attributable to a reduction in the general fund and the use of the capital fund to finance additional equal pay costs.

Movement in the Council's useable reserves per the Annual Accounts 2014/15	2014/15 £million	2013/14 £million	Movement £million
General Fund	64.302	75.021	(10.719)
Housing Revenue Account	9.199	9.577	(0.378)
Capital Fund	0	19.008	(19.008)
Capital grants unapplied account	8.366	2.762	5.604
Insurance fund	12.728	11.658	1.070
Repairs and renewals fund	1.306	1.122	0.184
Total useable reserves	**95.901**	**119.148**	**(23.247)**

70. The Council's useable reserves (which includes the general fund balance and other reserves), as a percentage of the net cost of services, against 30 other local authorities is shown below. North Lanarkshire Council's ratio of 13% remains close to the both the mean (17%) and the median (16%) for the sector in 2014/15 and supports our view that the Council has effective financial management arrangements in place.

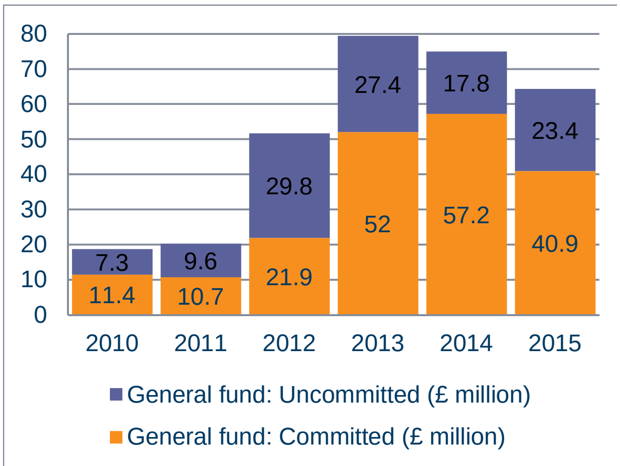
Exhibit 2 – Useable reserves as a % of net cost of services (30 local authorities)



The chart has been compiled from data made available by Audit Scotland and Shetland and Orkney Islands Councils have been omitted from the comparison as their level of reserves may distort the assessment.

71. The chart below shows that between 2009/10 and 2012/13 the Council's general fund balance rose by £60.6million. This was during a period when considerable efficiency savings were planned and achieved. However, in the subsequent two years the balance has decreased (by £4.3million in 2013/14 and by £10.7million in 2014/15). £12million, in line with the approved Council reserves policy; in each of the last four years uncommitted general fund balances have been greater than this amount. 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 £15million in 2014/15).

Exhibit 3 – North Lanarkshire Council's general fund balances over the last five years



72. The Council's financial reserve totals

Composition of the general fund at 31 March 2015

Earmarked funds	Earmarked carry forward of 2014/15 budget to be used in 2015/16	Approved level of reserves	Unallocated balance
£28.904million	£11.999million	£12million	£11.399million

73. The unallocated balance of £11.399million within the general fund reflects a favourable variance between the 2014/15 budget and the final outturn position. The Council has identified in its Management Commentary how this unallocated balance would be used.

74. As the general fund balance has risen (in previous years), so has the level of earmarked resources. As a result, the effective monitoring of earmarked general fund balances has become increasingly important. In 2013/14 we recommended that the Council provide elected members with more information on the movement on earmarked funds throughout the financial year. In 2014/15 the Council has extended its reporting and the provisional outturn report (May 2015) included explanations of the movements on the most significant earmarked funds.

Capital position

£50.412million: Housing revenue account capital additions

- £42.918million: Council dwellings and other HRA properties
- £7.494million: New build council dwellings programme

£63.043million: General fund capital additions

- £16.747million: Schools
- £16.387million: Roads, lighting and infrastructure networks
- £7.167million: Town centres and other economic regeneration projects
- £7.105million: Sports and cultural facilities
- £4.862million: Social work facilities
- £10.775million: Various other projects

75. During 2014/15 the Council invested £63.043million on general fund assets and £50.412million on HRA assets, giving total capital additions of £113.455million. The Council delivered 88% (92% in 2013/14) of the approved general fund capital programme for the year (£71.738million) and 90% (87% in 2013/14) of the approved HRA capital programmes (£55.738million).

Housing revenue account

76. The HRA Income and Expenditure Statement shows total expenditure for the year of £62.879million, resulting in an accounting surplus of £39.49million. As with the Council's Comprehensive Income and Expenditure Statement, adjustments are required to show the impact on the statutory reserve. The HRA reserve at 31 March 2015 was £9.199million; a reduction of £0.378million. The variance between the accounting surplus and the reduction in the reserve is due to £39.5million of adjustments, principally due to the treatment required for the funding of capital expenditure.

Budgetary control

77. The Council has established budget setting and monitoring arrangements in place which have not changed significantly since our May 2012 *Review of North Lanarkshire Council's Budget Setting and Monitoring Arrangements*. A comprehensive budget timetable is produced on an annual basis setting out key activities target dates and responsible individuals involved in the budget setting process. An incremental approach is used with the prior year baseline budget being updated for anticipated cost pressures, unavoidable costs, service priorities and savings contributions.

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

79. Revenue and capital monitoring reports are prepared by each service every four weeks. These reports compare actual figures (both period and year to date) against budget and provide explanations for all significant variances. Significant adjustments to the budget are recorded and reported to the relevant committee.

Review against CIPFA's Financial Model

80. The Council's Financial Services Division periodically carries out self-assessments against the Financial Management Model produced by CIPFA. The model provides an assessment of the effectiveness of the Council's financial management arrangements across three progressive styles and four management dimensions.

Exhibit 4: CIPFA financial management model

CIPFA Financial Management Model						
Progressive styles			**Management directions**			
Securing stewardship	Supporting performance	Enabling trans-formation	Leadership	People	Processes	Stakeholders

81. The first assessment against the model took place in 2009, with subsequent assessments taking place in 2011 and 2013. There was consistent improvement over the first three years to the extent that the 2013 assessment found the Council demonstrated that the three progressive styles and four management dimensions were embedded “strongly” within the Council at that time, the highest level achievable. While management report that there has been a very small decrease in the scoring from the 2015 assessment, the Council still demonstrates that the three progressive styles and four management dimensions are embedded “strongly”.

82. The self -assessment indicates that the Council has effective financial management arrangements in place. On the whole, from management’s self-assessment and the conclusions we have reached from our own work we consider that the Council is adequately identifying and addressing the risks to financial sustainability across both the shorter and longer terms. The Council has set three actions for improvement as a result of the 2015 assessment. Progress against the actions will be monitored by the Financial Services Division and reported to the Policy & Resources (Finance & Customer Services Sub−Committee) by March 2016. The improvement actions were:

- To promote CIPFA best practice statements;
- To convey the importance of financial management activities and procedures; and
- To emphasise the importance of identifying emerging public sector issues.

Financial capacity in public bodies

83. The Accounts Commission and Auditor General for Scotland are interested in the impact that reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance function at the Council. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.

84. A summary of our findings are highlighted below:

Theme	Audit findings
Financial capacity	The finance function at the Council is overseen by the Executive Director of Finance & Customer Services. Through his position within the organisation and his attendance at Audit & Governance Panel and corporate management team (CMT) and Policy and Resources Committee meetings, the Executive Director of Finance & Customer Services has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Executive Director of Finance & Customer Services has responsibility for finance, ICT and customer services. He is supported in this role by 105 (86 FTE) financial management staff (at the time of audit this included nine vacant posts). The Council has 37 professionally qualified finance posts, including the Executive Director of Finance and Customer Services and Head of Financial Services. In addition, there are also eight professionally qualified staff in the Internal Audit function and two in Revenue Services. Staffing levels within the finance function have been reduced by 14 FTE since 2011/12 as part of the Transformation programme and are at present considered appropriate. The Council has a formal succession planning development framework in place. It is further supported through the use of the Council's Corporate Performance Review and Development scheme arrangements with part 5 of the paperwork (Career advancement route map – areas requiring further development) identifying the areas staff need to develop if they are to take on more senior or challenging roles
Financial strategy and sustainability	The Council sets an annual budget and has medium and long-term financial planning arrangements in place. Financial strategies set out the Council's commitments, strategic priorities, cost pressures as well as projected income over a period of time. These plans allow the Council to identify the funding shortfalls that the Council faces over time and to devise an appropriate course of action to address the funding gaps. Financial plans are updated on a regular basis. Medium-term outlook covers two to three years and is updated annually. The long-term financial plan is subject to a biennial update, with the latest strategy reviewed and approved by the Policy & Resources (Finance & Customer Services) Sub-Committee in May 2014. We assessed the Council's long term financial strategy against the key features highlighted in the Audit Scotland report *Scotland's Public Finances: A follow-up audit: progress in meeting the challenges*. We are satisfied that vast majority of the key features are included in the long term financial plan or other supporting plans which are referenced in the Long-Term Financial Plan.
Budget monitoring and control	The Council has effective controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. Budget updates are produced on a four-weekly basis and are distributed to a variety of audiences at the Council including individual service management, CMT, individual service committees, and Policy and Resources Committee (Finance & Corporate Services). These arrangements ensure a sufficient level of challenge over financial performance.

Systems of internal control

85. We have evaluated the Council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended. We undertake detailed controls testing every three years, or more frequently where the key controls have changed.

86. As reported more fully in our interim management report, we consider that the Council has adequate systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses in the Council's accounting and internal control systems during our final audit. Our conclusions have been reached following consideration of the following key financial systems, as set out in our external audit plan

Exhibit 5 – Key financial systems evaluated in 2014/15

- Council tax
- Non domestic rates
- Cash receipts and banking
- Housing benefit
- Housing rents
- Sundry income
- Payroll
- Ordering and creditor payments
- Treasury management
- Financial ledger
- Members remuneration / expenses
- Budgetary control
- Capital contracts
- Tendering procedures
- Asset register
- Following the public pound
- IT controls

87. Although our work did not identify any significant deficiencies in the operation or design of controls, we did identify some issues in the ordering of goods and services by the Council's schools and the education headquarters. These issues, our recommendations for improvement and the related management responses are detailed in our interim management report.

ICT transformation programme review

88. In June 2015, we undertook a review of the project and programme management arrangements in place for the ICT Transformation Programme. The Programme is intended to implement technology solutions that will enable wider transformation activity across the Council. For example, it will support Flexible & Mobile Working arrangements.

89. Our review identified a number of areas where there was scope for improvement in the control environment many of which management were aware of and in the process of addressing at the time of our review.

90. The most significant issue arising from our review of the programme was that the scope of some projects has widened. This has meant in some cases that as projects have progressed, further associated projects have been required to support delivery. In addition, staff resourcing has proved, challenging at a project, programme and technical level. These are causing a rethink on how certain projects were resourced.

91. We also made recommendations relating to the need for all ICT Transition projects to be channeled through the EGASD (Efficient Government and Service Delivery) Programme Management Office to ensure consistency in approach to management and control of project activity. An action plan to address all the weaknesses identified was agreed by management and reported to the Audit and Governance Panel.

Internal audit

92. The Council's internal audit service is an independent assurance function that provides an opinion on the Council's control environment. 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. The findings of internal audit are summarised in an annual opinion on the council's internal controls, given by the Audit Manager. This year the Audit Manager reported that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year, with two exceptions:

- While there were examples of sound risk management arrangements, the quality and impact of risk management arrangements across the Council varied significantly. Overall the Council's risk management arrangements had not consistently operated as intended and substantial improvements require to be made.
- Management has not recently undertaken any formal self−assessment of the extent to which the Council complies with the principles and elements of good corporate governance. Internal audit understand that such a review is planned.

93. Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. To ensure an efficient use of the Council's total audit resource we have established appropriate working arrangements with internal audit. Each year we aim to place reliance on the work of internal audit where appropriate. Prior to placing such reliance we review the internal audit function to ensure that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). We also consider whether the work carried out by internal audit is sufficient in terms of quality and volume.

94. We have concluded that internal audit operates in accordance with the PSIAS and as a result we have been able place reliance on the work of internal audit where appropriate. Our review was informed by the self-assessment carried out by the Council's Audit Manager during 2014/15 which identified that, whilst there were areas with scope for improvement, there were no significant deviations from the PSIAS.

95. A formal external assessment of internal audit's compliance with the PSIAS is required at least once every five years. The Audit Manager has reported that the national grouping of Heads of Internal Audit of Scottish councils has been developing a framework to meet the requirement for an external assessment through a peer review process. Although the specific details of the peer review programme are not yet finalised it is expected that the external assessment of North Lanarkshire Council's internal audit service will be undertaken in late 2015. The results of the assessment will be reported to the Audit and Governance Panel.

Fraud and irregularity

96. In accordance with the Code of Audit Practice, we have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements for fraud and irregularity to be operating effectively.

National fraud initiative

97. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies and external auditors to identify fraud and error. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

98. We have concluded that the Council's arrangements for the 2014/15 NFI exercise have been adequate. A report outlining the Council's planned approach to the 2014/15 NFI exercise was presented to the Audit & Governance Panel in August 2014. The Panel also reviewed the Council's self-appraisal checklist as recommended in the Audit Scotland report.

99. The required data sets were submitted on time. The Council received a total of 12,786 data matches, of which 4,180 were recommended for investigation. The Council started investigating the matches shortly after they were released. As at 8 September 2015 the Council had processed a total of 703 (5.5%) matches and investigation of further 151 matches was in progress. The Council identified one fraud (total value £56.62) and four errors which had no financial impact on the organisation. We note the Council's relatively low level of progress in the investigation of the matches. A report, prepared by internal audit, is due to be presented to the Audit and Governance Panel in November 2015 in respect of the Council's participation and outcomes from the NFI exercise.

Single fraud investigation service

100. In October 2014 the Council's responsibility for investigating housing benefit fraud was transferred to the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). This involved eleven employees transferring to the DWP in accordance with the Cabinet Office Statement of Practice. Anti-fraud policy and revenues and benefits business plan have been updated to reflect this change. The Council has appointed the Appeals and Adjudicator Team Leader as the Council's single point of contact with the DWP. The Appeals and Adjudications team is responsible for gathering information requests for the DWP to collect.

101. The change in service delivery has yet to be fully embedded. A Service Level Agreement (SLA) was established at the time of transfer which details the information exchange requirements to be followed by the DWP and the Council. We understand performance against the SLA is not routinely monitored or reported within the Council. In addition the outcomes of fraud cases investigations are not routinely reported by DWP to the Council. The Council should agree an approach to resolving this issue with the DWP.

Action plan point 5

4

Financial sustainability

Financial sustainability

102. Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

Long term financial planning

103. The Council has an approved long term financial plan covering the ten year period 2014-2024. The plan is updated broadly every two years and establishes how the Council plans to achieve long term stability given the financial challenges it will face through to 2024. 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). Further consideration of the long term plan was provided in our *Annual report on the 2013/14 audit to the Council and Controller of Audit*

Revenue budget 2015/16

104. In February 2015 the Council approved a balanced budget for 2015/16. The budget recognises available resources of £740.175million, comprising revenue support through the Local Government Finance Settlement of £601.426million (inclusive of non-domestic rate income of £126.575million), council tax income of £124.012million (based on band D council tax level of £1,098 which has been frozen since 2007/08), and £14.737million of approved savings.

105. Expenditure requirements for 2015/16 have been estimated at £747.4million which is £7.225million higher than the resources available. The Council plans to meet that shortfall by applying one-off resources identified through ongoing strategic financial planning. In November 2014 the Council updated its financial outlook for the final year of the Council's approved three−year savings strategy (to 2015/16). This assessment identified two principal areas where one-off resources would be available to support the 2015/16 position:

- The 2013/14 budget set aside £2million on a recurring basis to support the Council Tax Reduction Scheme. Since that time the actual level of support required has reduced to £0.4million in 2014/15. The Council now anticipates that £2million resource initially assumed for 2015/16 will be available to be used elsewhere.
- Whilst the Council continues to invest in the Schools & Centres 21 programme it has identified that one-off resources of £7.1million will be available for other uses during 2015/16 as the Council does not need to draw down the planned resource in line with the expected timeframe.

106. The use of the above savings (totalling £9.1million) allows the Council to set a balanced budget, retaining £1.875million non-recurring resource for further consideration through the year. Whilst the use of non-recurring resources supports a balanced budget in 2015/16, the Council estimates that there are recurring cost pressures of £4.1million that will need to be recognised and planned for from 2016/17 onwards.

Three year savings package

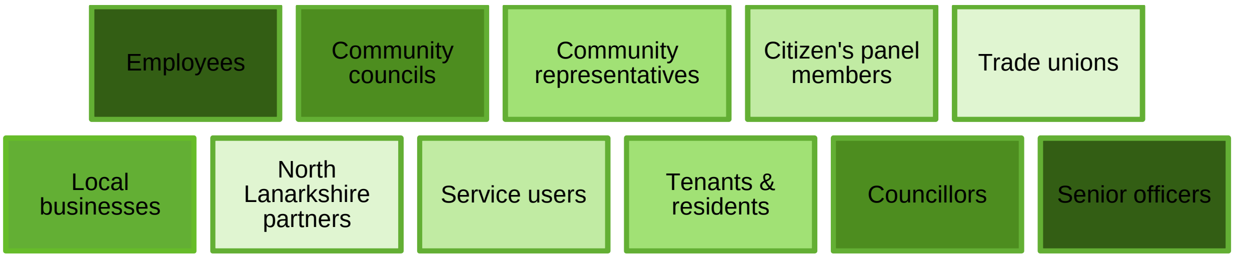
107. To address the budget requirements for the period 2013/14 to 2015/16, the Council agreed a three year savings package of £62.4million, which was subsequently reduced to £58.7million. The Council set a target of £19.618million of planned savings in 2014/15. £16.633million of the planned savings were achieved in the year (85%) and £0.982million of replacement savings were also identified. This left a gap of £2.003million (10%) which was met through reserves. The approved budget for 2015/16 incorporates £14.737million of savings as noted above.

Service and people first

108. The Council's change management programme, 'Service and People First', was introduced in November 2006 and became operational in April 2007. 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. This included the One Vision consultation programme designed to review the Council's progress since 2007 and to consider emerging priorities, challenges and opportunities for the Council and its partners in the short and long term.

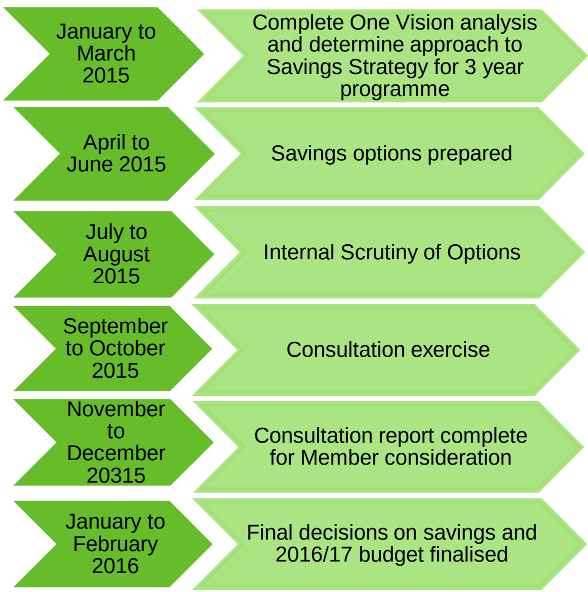
109. The One Vision consultation took place in November 2014 and involved a series of workshops and focus groups with a range of stakeholders. The exercise also included a public survey via the Council's website (attracting 596 responses). The following groups participated in the exercise:

Exhibit 6: Group who participated in the One Vision consultation



110. In March 2015 the Policy and Resources committee received an initial analysis of the results of the exercise and consideration of the alignment of the results with the Council's savings strategy. The timing of the exercise fits well with the development of the savings strategy required for 2016/17 and 2017/18. Whilst the council reports that early indications are that £80million will need to be saved between 2016 and 2018, work is ongoing to identify and consider the savings options available.

Exhibit 7: Indicative timetable to identify savings



Workforce planning

111. The Council recognises that in order to achieve a balanced budget in 2014/2015 reductions in staffing were required. There have been no compulsory redundancies this year with all exit packages reflecting voluntary exits or early retirement.

112. The Council has entered into 184 voluntary exit packages with staff during the year (153 in 2013/14) and the total cost to the Council in 2014/15 was £7.472million (£8.257million in 2013/14). All exit packages are governed through a set of established policies and procedures in place over early retirement, redeployment and redundancy. Regular updates on workforce changes (including redeployments, early retirement, voluntary and compulsory redundancy are reported to the Policy and Resources (Human Resources) sub-committee. And while the Council does not prepare a Council-wide workforce plan, it considers that the principals of workforce planning are well embedded within the service planning and financial planning framework.

Health and social care integration

113. The Council recognises that the new health and social care arrangements will bring a number of financial challenges which will need to be addressed in order to ensure governance arrangements are sufficient and appropriate. The Council has identified the following main risks:

- The new arrangements impact on the current effectiveness of the Council's financial planning, budget monitoring and financial reporting arrangements.
- Monitoring arrangements are inadequate or ineffective and do not enable the Council to exercise appropriate and effective oversight of the use of funds transferred to the Integrated Joint Board (IJB); and
- The use of funds by the IJB does not support the Council's duty to deliver Best Value.

114. North Lanarkshire Council, South Lanarkshire Council and Lanarkshire Health Board are working in partnership, through two working groups, to ensure that a consistent approach to financial management arrangements is implemented across the region. The Council is committed to effective partnership working and to date the work is progressing as planned.

115. During the shadow year (2015/16) it has been agreed that the IJB will operate with a provisional budget in order to allow all parties to fully understand the various funding elements that will be transferred. The Council reports that some elements of the IJB budget still require negotiation in order to reach a formal agreement by April 2016. The Council is also aware that a portion of the projected Council-wide £80million funding gap 2016-2018 will fall on the budgetary areas being transferred.

116. To date the Council expects to notionally transfer around £140million to the IJB with the Health Board expected to notionally transfer over £250million. The Council's contribution reflects the budgets related to adult care services only. From 1 April 2016 the IJB, through a Strategic Commissioning Plan, will be responsible for determining the best use of those combined resources in North Lanarkshire.

117. Whilst the Council is making good progress overall towards setting up and transferring services to the new IJB, a number of significant challenges remain to be resolved:

- The Council is forecasting that it needs to make budget cuts of around £80million over the next two years and a significant part of these savings are expected to come from adult social care services. Budget cuts on this scale will present a significant challenge to service sustainability for the newly formed IJB and may require radical service transformation to be achievable.
- In addition, the Council will not now be notified of its funding settlement from central government till January 2016. Current expectations are that this settlement will be challenging, potentially requiring further savings to be achieved than currently forecast.
- The Council is still working with Lanarkshire Health Board, and other partners to agree a variety of governance, financial management and performance management arrangements for the new IJB. These arrangements include:
  - Accountability and governance structures and arrangements between the IJB and key stakeholders
  - Completion of financial due diligence
  - Budget setting, monitoring and reporting arrangements for the new IJB
  - Financial management arrangements such as those dealing with under/over spends and the creation of reserves and balances within the new IJB
  - Impact and application of the new LASAAC guidance on accounting and reporting for IJB transactions, including VAT and consolidation arrangements
  - Agreeing and establishing a performance management and best value framework, including key performance indicators for the new IJB
  - Establishing effective operating procedures, internal audit arrangements and board governance arrangements
  - Arrangements to 'disentangle' currently integrated services to support

new reporting structures for adult care services (for example, arrangements for managing children's care service and adult care service are currently integrated to some extent).

118. The creation of the IJB represents a major change in arrangements for provision of care services to often vulnerable adults. The scale of the changes in turn is requiring a significant amount of management capacity and attention to understand, manage, monitor and report on progress towards achieving the new arrangements. This is occurring at a time of major organisational change driven mainly by the need to make budget savings which has itself driven a reduction in managerial capacity at the Council. The Council's ability to manage the scale of change required remains a significant challenge.

119. We note that the Council's current risk register and Annual Governance Statement in the accounts does not fully capture many of the significant risks associated with the creation of a new integrated body to deliver a complex range of adult care services or the assurance framework adopted by the Council for managing and mitigating these risks.

Action plan point 6

Welfare Reform

120. The Council's medium term financial plan identifies the need to commit £2million to support the potential impact of welfare reforms on the local population. The impact of welfare reform is monitored by the Corporate Welfare Reform Working Group, individual work streams, local partnerships and regular reports to service committees.

121. In April 2013 the Council's Housing and Social Work Services committee approved the establishment of the Prevention and Sustainability Fund (PSF), using £1million of HRA funds. A further £1million 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. In 2013/14 the Council requested the opinion of a Queen's Counsel (QC) on the legality of the Fund being setup. The QC concluded that the establishment and operation of the Fund was within the legal authority of the Council.

122. 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

123. As reported to the Housing and Social Work Services Committee in January 2015, the under-occupancy charge for 2014/15 (at that time) totalled £2.3million (£2.1million in 2013/14)[1] which was fully met by Discretionary Housing Payments (DHP). The 2013/14 charge was funded through a combination of DHP and the PSF. The most up-to-date report to the Housing and Social Work Services Committee (January 2015) indicates that almost £800,000 was awarded from PSF to mitigate the under-occupancy charge in 2013/14. A further award of £450,000 was made to address the 'legacy arrears' for 2013/14. This leaves a balance of £750,000 on the PSF remaining for further consideration. This balance will be utilised in 2015/16.

124. From 2013 the Department of Work and Pension (DWP) is introducing Universal Credit to replace six means-tested benefits and tax credits for working age claimants. DWP is rolling out the implementation of Universal Credit in stages with the full migration to the new benefit expected to be completed by 2019. The rollout of Universal Credit in North Lanarkshire commenced in March 2015. As per the DWP's estimation, approximately 5,780 eligible applicants will make a claim in the first year. Service delivery obligations and expectations from both, DWP and the Council are set out in the Delivery Partnership Agreement. We will review the Council's arrangements for the progress in implementation of Universal Credit during 2015/16.

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[1] Source: Housing and Social Work Services committee paper, January 2015: Welfare reform – Prevention and Tenancy Sustainability Fund

Capital budget – affordability

Future capital plans

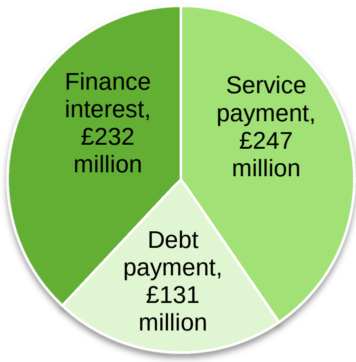
125. The Council's current capital programme has been prepared for the five year period 2013-18, mirroring the periods covered by the Council's Corporate Plan and the Community Plan (Single Outcome Agreement). The Council approved the £344million, five year capital programme (covering all non HRA capital expenditure) in March 2013. The general fund capital 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 2015/16 totals £48.608million. The 2015/16 programme for Schools and Centres 21 totals £33.201million.

126. The HRA capital programme is also made up of two components: the mainstream programme (including repairs, regeneration and upgrading) and the new build programme. The mainstream programme for 2015/16 totals £49.6million and the new build programme for 2015.16 totals £9.533million.

127. The Council recognises that successful delivery of the capital programme is essential for the achievement of the Corporate Plan and the Community Plan. The capital programme is underpinned by the Capital Investment Strategy 2005-2018 which was updated and approved in 2013. The strategy outlines the basis for allocating funding to capital priorities and ensures there is a clear connection between the capital programme and the Council's asset management plans. The strategy also reflects CIPFA guidance on asset management and has been informed by the Audit Scotland report *Major Capital Investment in Councils*, published in March 2013. The framework in place allows the Council to demonstrate that that it has effective capital planning arrangements.

PPP obligations

Remaining unitary charge payments to 2037



128. The Council is involved in a public private partnership (PPP) for the provision of 17 schools. The contract began in 2005 and runs to 2037 at which point ownership of the assets passes to the Council as does all responsibility for maintenance and operations. The Council pay a 'unitary' charge which covers service costs, interest payments and the statutory repayment of debt.

129. In 2014/15 the annual total of the unitary charge was £20.637million (comprising £4.642million debt repayment, £9.497million interest costs and £6.497million service costs). Over the remaining life of the contract the Council expects to pay unitary charges totalling £610.519million (as shown in the pie chart opposite).

130. The contractual terms of the PPP are similar to other similar projects of a similar age nationally and the unitary charge increases in line with inflation each year. The unitary charge is a significant recurring cost to the Learning and Leisure service and the annual charge is expected to continue to rise in the future. In order to effectively plan for the unitary charge payments the Learning and Leisure Service carries out long term budgeting in relation to the PPP. This feeds into the Council's long term financial plans to ensure that the unitary charge can be afforded over the life of the contract.

New developments:

Ravenscraig TIF

131. The Council remains committed to the regeneration of the site of former steelworks at Ravenscraig. In 2005 outline planning permission was granted for the redevelopment of the site to include: housing, business, industry, a new town centre, major leisure facilities, community facilities, parkland and transport improvements. The redevelopment is being led by Ravenscraig Limited and in June 2014, the development was included as one of two national developments in the Scottish Government's *National Planning Framework.*

132. The regeneration was planned to be supported by a Tax Incremental Financing Scheme (TIF) whereby the costs of borrowing for the investment will be financed by future non-domestic rates income. Provisional approval for the TIF was granted by the Scottish Government in 2011. However, the Council reports that a formal TIF agreement has not yet been completed due to wider economic downturn. Given the delay the outline business case for the TIF now requires to be updated in collaboration with Ravenscraig Limited. The Council have engaged external advisors to assess the impact of the delay on the TIF along with any wider implications for the Council

Clyde Valley Shared Services – waste project

133. 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.

134. In our *Annual report on the 2013/14 audit to the Council and Controller of Audit* we noted that the procurement process for the project had been suspended following the publication of revised guidelines from SEPA. In August 2015 the Council reported that following a competitive dialogue process and the evaluation of detailed submissions, two companies had been invited to participate in final dialogue and then submit final tenders, with an expectation that a preferred bidder would be appointed shortly thereafter

Hub south west project

135. 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 two schools being delivered as part of the Council's Schools and Centres 21 programme: the Clyde Valley Campus and Greenfaulds High School.

136. Both projects are now in construction. Building work at the Clyde Valley Campus began in May 2014 and it is expected that the Council will take occupancy of the first of three phases in January 2016. Building work at Greenfaulds High School began in January 2015 and it is expected that the Council will take occupancy of the first of three phases in September 2016.

137. The Council is also at the planning stage for a third development, the Cumbernauld Academy & Theatre Project. Stage one of the design, using a strategic services contract through the hub, has been completed. Stage two requires the project to be taken forward with a building contractor. The Council has already set aside the full capital commitment for the project in the event that the project will not be progressed as a 'Design, Build, Finance and Maintain' project via hub. Committee has approved the progression of the project via hub but the type of contract is dependent on whether the Council obtains funding from the Scottish Government. If the project does not, the project will progress as a 'Design and Build Development' via hub. This is being monitored by the Council and we will maintain a watching brief on this project and wider developments with hub projects in general.

Glasgow Clyde Valley City Deal

138. A 'City Deal', establishing a £1.13 billion infrastructure fund, was announced in July

2014. The fund comprises £500million of new capital funding from each of the UK Government and Scottish Government over the 20 years to 2035. A further £130million of capital funding has been committed by local authorities across Glasgow and the Clyde Valley, including North Lanarkshire Council, over the same period. The Council plans to use the City Deal to support three core infrastructure projects.

Exhibit 8: Core infrastructure projects under the City Deal

North Lanarkshire Council core infrastructure projects under the City Deal

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.

139. The Council sees clear synergies between its work in relation to the City Deal and the Ravenscraig TIF and as a result it has setup a new multi-disciplinary team to oversee both functions. Strategic business cases were produced for each of the three core City Deal projects. In August 2015 all three strategic business cases were approved by the City Deal Cabinet. As a result the Council can progress towards feasibility and development work in order to produce an outline business cases.

5

Governance and transparency

Governance and transparency

140. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer 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. Audit bodies usually involve those charged with governance in monitoring these arrangements.

Governance arrangements

141. During our audit 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 and risk management. Based on our review, overall governance arrangements are adequate and appropriate.

Senior staff changes

142. Paul Jukes, Executive Director of Regeneration and Environmental Services, has been appointed as Chief Executive. Paul is now acting as Chief Executive Designate and will remain so until 26 October 2015 when he will formally take up the post of Chief Executive. The Head of Environmental Estates will deputise as Executive Director of Regeneration and Environmental Services until such time as a replacement is appointed.

143. There have been a significant number of changes at Executive Director and Head of Service level within the Council over the last two years. The new leadership team appear to be operating well. The appointment of the new Chief Executive will further consolidate the relatively new leadership team.

Audit and Governance Panel

144. The current political environment within Scotland has placed renewed emphasis on the role of the Audit Committee as an independent and objective scrutiny body within local authorities. The exhibit below provides an extract from the guidance published by CIPFA in the 2013 publication entitled Audit Committees, Practical Guidance for Local Authorities and Police.

Exhibit 9: Extract from CIPFA guidance

One factor that is important for the success of the audit committee is ensuring a non-political approach to meetings and discussions.

Source: Audit Committees, Practical Guidance for Local Authorities and Police, (CIPFA 2013).

145. We have noted that on occasions discussions within the Audit and Governance Panel appear to have been shaped by the political allegiance of members. This was particularly evident during discussion of our review into the handling of the MEARS contract and the subsequent response presented to the Panel by the Chief Executive. We would re-emphasise the need to ensure proceedings within the Panel remain apolitical.

146. At a meeting of full Council on 18 December 2014 a motion was passed to replace the former Convener of the Audit and Governance Panel. The procedure followed to replace the Convener was in line with previous changes in appointments to other Council committees and was in accordance with the Council's standing orders. Both the former and current Convener are part of the ruling administration.

147. Audit Scotland and the Accounts Commission continue to point out that in their view the chair of local authority audit committees should be independent of the administration. The following is an extract from the Overview of Local Government in Scotland 2015:

"We believe that effective and transparent scrutiny is best achieved where:

- the chair of the scrutiny or audit committee is not a member of the political administration
- the committee has clear terms of reference that set out their role in independent scrutiny of council decisions and performance
- the committee has adequate support and access to independent advice
- member's of the committee have the necessary skills and training to do their job."

Extract from the Accounts Commission's 'Overview of Local Government in Scotland 2015'

148. The Council should continue to regularly review the operation and governance of the Audit and Governance Panel in light of best practice.

Action plan point 7

Delivering good governance in local government

149. 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). During 2014/15 internal audit carried out a review assessing current compliance with principles 1 and 3 of the framework

Principal 1: Purpose of the Local Authority and creating and implementing a vision for the local area

Good Practice:

- North Lanarkshire Council has a Corporate and Community Plan in place covering the period 2013-2018
- Annual service plans are in place which link to the objectives within the Corporate and Community Plan
- Embedded performance management and reporting arrangements are in place to measure and report performance against objectives

Principal 3: Promoting values and upholding high standards of conduct and behaviour

Good Practice:

The following were found to be in place at the Council;

- Codes of conduct for elected members, Chief officers and employees
- Standing orders;
- Scheme of administration;
- Scheme of delegation;
- Financial regulations;
- Complaints procedures; and
- Anti-fraud and whistleblowing policies

Overall areas for improvement

The review found opportunities for the following;

- Making better use of complaints to assist in the assessment of service performance and identify areas for potential improvement.
- A more planned and coordinated approach to measuring and analysing quality of customer service for users and customer satisfaction.

Following the Public Pound

150. The Council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf. 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.

151. In 2011, Audit Scotland published the report *Arms-Length External Organisations: Are you getting it right?* In June 2012, the Council's Policy and Resources Committee approved assurance monitoring arrangements which cover financial, operational and social criteria. During the 2013/14 audit, we assessed the extent to which the Council complied with the guidance contained within the 2011 national report. Our work identified weaknesses in the Council's existing arrangements and raised recommendations to help the Council improve their processes.

152. During our 2014/15 audit, we performed further follow up work to establish the level of implementation of the recommendations raised in our 2013/14 report. Overall, we identified that good progress has been made towards improvement. The Council has fully implemented six out of the ten recommendations arising from our 2013/14 review. These recommendations have largely been addressed by the development of Corporate Guidance, which has been publicised to staff. The Guidance contains formal procedures that should be adopted by Services in the development and management of ALEOs. These procedures should ensure greater consistency and oversight of these organisations.

153. It is the responsibility of each Service to monitor the performance and governance of the relevant ALEOs. This monitoring is supported by annual financial assurance processes undertaken by Finance and Customer Services. An annual report is presented to the Policy and Resources Committee and Audit and Governance Panel which advises them of compliance with the financial assurance arrangements in the year and proposals to improve the processes in the following year. In addition, the Council's Audit and Governance Panel invites senior representatives from the ALEOs to attend the Panel and outline their corporate governance, performance management and risk management arrangements.

154. Four recommendations from our 2013/14 report are only partially complete. These actions are dependent on services demonstrating compliance with the newly developed guidance in the following areas:

- **Assessment of best value and continuous improvement arrangements**
- **Establishment of Business Continuity Plans**
- **Development of financial and non-financial performance indicators**
- **Establishment of risk management arrangements**

155. Implementation of the four remaining recommendations, and therefore full compliance with the newly developed guidance in these areas, is to be demonstrated by Services providing adequate assurance and demonstrating how the issues and good practice recommendations detailed in the Corporate Guidance and external reports have been incorporated. The timescale for the submission of this review information to the Corporate Management Team is 31 December 2015..

156. Internal audit also undertook a review of the arrangements in place for overseeing and monitoring ALEOs during the year. The review considered whether the Council is compliant with the good practice examples highlighted in the original Audit Scotland report and what progress has been made against our recommendations. Internal audit concluded that reasonable assurance could be placed over the controls in this area and will continue to monitor the implementation of the new guidance to assess whether expected outcomes have been secured.

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

157. 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.

Risk management

158. Public sector bodies in Scotland currently face increasing demand for quality services, but also have to face the challenge of tighter financial budgets. Effective risk management encourages effective decision making and better use of resources.

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

160. In August 2014 the Audit and Governance Panel received an internal audit report on the Risk Management Process. The purpose of this audit was to provide an independent high-level review of the adequacy and effectiveness of the Council's risk management arrangements. This report was supplemented by an Enterprise Risk Management maturity assessment, carried out by Marsh Risk Consulting in September 2014. Both reports identified scope for improvement in the Council's risk management arrangements, the internal audit report offering only 'limited assurance' over arrangements in place.

161. In February 2015 a further report was tabled by the Head of Revenue Services outlining the main themes of the reports alongside commentary in respect of the progress and direction necessary to address them. However, since February we have found that little progress has been made in actively addressing the themes and specific issues identified. It appears that the Council did not make interim arrangements over this period to ensure that the risk management function, which is crucial to overall governance arrangements, was taken forward. We have noted some recent progress at a corporate level; this includes the drafting of terms of reference for the Corporate Risk Management Working Group and the advertising for the role of corporate risk officer. However, given the time elapsed since the original reports being tabled this represents limited progress. The Council has indicated that following the first meeting of the Corporate Risk Management Working Group in September, a detailed action plan will be drawn up through which progress towards addressing the findings of the reports can be controlled and monitored. It is hoped that this will allow the Council to progress with implementing the recommendations of the reports.

162. The Council has included, within the Governance Statement, an acknowledgement that risk management arrangements require further development. This includes the identification and management of risks associated with key corporate projects.

Housing and non-housing repairs contract

163. In 2010 the Council tendered for a strategic partner to deliver a ten year contract for local authority housing and corporate property repairs. The successful bidders were Morrison Facilities Services Ltd. In 2012 Mears Plc bought Morrison Facilities Services Ltd. Mears Scotland LLP is a joint venture between North Lanarkshire Council and Morrison Facilities Services Ltd, a subsidiary of Mears Plc. The partnership delivers housing and non-housing property repairs and maintenance services for all corporate property and over 36,000 households for whom the Council has statutory duties as a landlord.

164. As part of the contract awarded, Morrison Facilities Services Ltd agreed to deliver best value efficiency savings (BVES) providing a cumulative financial benefit to the Council of £37.9m (the total value of the contract awarded was £188m). In February 2013, Mears Scotland LLP contacted the Council expressing concern that the BVES were not achievable. In the first three years of the contract period, the partnership had generated significant financial losses exceeding £10m. The Council agreed to review and evaluate the financial and operational performance of the partnership, as part of a planned service review.

165. The service review concluded that the partnership was performing well from a service delivery perspective. The current and likely future financial performance however made the partnership unsustainable. The review concluded that there was a significant risk of partnership failure. It was identified, as part of the process, that the cumulative nature of the BVES was a critical element in making it highly likely that, despite the efforts of both parties, the future financial performance of the partnership would continue to deteriorate.

166. In September 2014, a report was presented to the Council's Policy and Resources Committee which provided a summary of findings from this service review and sought approval for officers to negotiate a variation to the contract between the Council and Mears plc. The report noted that the partnership's financial status and ongoing financial obligations created a risk of future partnership and service delivery failure. Members agreed, based on the information included within the report, to a variation to the contract and authorised officers of the Council to conclude negotiations. At the same time members requested that any 'further material changes to the contractual and operational arrangements' be subject to a future report of the Committee. An update on this matter was presented to the Policy and Resources Committee in December 2014. This report confirmed that a further full report including a review of the financial and legal considerations would be provided to Committee prior to final determination of the matter. In February 2015 a further report was presented to a special meeting of the Policy and Resources Committee: 'Service Review of Housing and Non-Housing Property Repairs and Maintenance Partnership (LLP) – Best Value Efficiency Savings (BVES). The report updated members of the outcome of negotiations in relation to the proposed contract variations and sought final agreement for all related implementation requirements. The report included legal and financial considerations on the proposed contract variations. Four financial scenarios were included in the report which sought to demonstrate that the proposed BVES variation represented value for money to the Council.

167. During the year we undertook a review of the Council's decision to amend the existing housing and non-housing property repairs contract. The review sought to assess whether the decision to vary the contract was based on relevant and accurate information and could be assessed as reasonable in the circumstances facing the Council.

168. Our review concluded that although the decision to amend the contract was based on a series of reports presented to Policy and Resources Committee, and was consistent with the Council's Standing Orders and internal governance arrangements, some concerns existed over the content of these reports. In particular:

- The initial report (September 2014) did not present the detailed analysis we would have expected before a major decision such as this was made. The report did not, for example, state the total value of BVES to be given up by the Council as a result of the revised arrangements (£24.9m as reported in subsequent reports) or detail the alternative options available to the Council, other than varying the contract with Mears Scotland LLP.

- The final report (January 2015) did not directly address whether the £24.9m value of the contract amendment was reasonable but not excessive.

- The report focussed on the proposed contract amendment and did not contain any commentary outlining other possible options that might have been considered by the Council.

- While we acknowledge that there can be a high degree of uncertainty associated with estimating future costs, we identified a number of issues relating to the accuracy or robustness of some of the figures included in the financial scenarios. It should be noted that these do not have a material impact on the underlying justification or rationale for the decision the Council was being asked to take.

- The range in the schedule of rates as presented in the report was based on management's review of benchmarking data. A range of 0% to 20% increase in the schedule of rates was used. While it is reasonable to assume that the schedule of rates would increase should the contract be re-tendered, we received limited evidence of the anticipated increase. Council officers were of the view that the increase in the schedule of rates will be at the upper range as presented in the report (i.e. 20%).

169. Our report acknowledges that action has been taken before the partnership failed and alternative options and costs had been considered and appeared reasonable given the circumstances faced by the Council. However without going out to the open market it was not possible to conclude with full certainty that the option to vary the contract rather than retendering provided the optimal solution.

170. As a result of the audit work undertaken the Audit and Governance Panel requested a response from the Chief Executive to the issues raised in the report. The Chief Executive appeared before the Panel in August 2015 to present the report with management responses to the issues raised in the audit report.

171. The report included management responses to the issues raised in the audit report. It also detailed lessons learned and highlighted areas for improvement summarised in a comprehensive action plan. On the basis of a high level review of the Chief Executive's responses and actions contained within the action plan we are satisfied that the issues identified as part of the audit review have been addressed appropriately. Further assurance on the implementation of the actions will be provided through the Council's internal audit monitoring and reporting arrangements.

172. In presenting his report, the Chief Executive identified "*extensive change in the composition of the CMT and in other Chief Officer posts, as well as managing a very demanding agenda*" as contributing factors leading to the issues highlighted in our report. He also acknowledged that "*it is essential that sufficient strategic capacity is maintained and developed within the organisation*". Issues regarding capacity have also been raised following a recent internal audit review entitled *'Service and People First – Transformation Programme'*. The purpose of the report was to provide independent assurance over the adequacy and effectiveness of the management arrangements for progressing the Council's change management programme. In the report internal audit state that management should ensure that sufficient capacity and management structures are in place for the successful delivery of transformation projects.

173. We support the comments of both the Chief Executive and internal audit function and recommend that the Council carries out a review of management capacity to ensure it can adequately address the challenging agenda it faces.

Action plan point 8

5

Value for money

Value for money

174. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Council's own assessment in delivering value for money and reporting performance.

Continuous improvement

175. The Council produces an annual Best Value Corporate Assessment and three year Improvement Plan. The Improvement Plan outlines at a summary level the improvement planned to the Council's arrangements between 2015 and 2018. The Best Value Corporate Assessment outlines the Council's arrangements as they relate to:

- Local priorities and public service reform.
- Corporate assessment.
- Service performance.
- Improving and transforming public services/public performance reporting.

176. The self-assessment provides evidence that the Council can demonstrate continuous improvement in the delivery of its services. The Improvement Plan is consistent with the Council's wider aims and objectives going forward and indicates that there is a focus on improvement at a reasonable pace.

Self-assessment activity by the Council

177. The Council adopted the Public Service Improvement Framework (PSIF) in 2008 and since then has carried out a series of service level self-assessments, building up significant knowledge and experience from these exercises. The Council updated its performance management framework, which comprises both strategic and operational activities in 2014 (exhibit 10):

Exhibit 10: North Lanarkshire Council's performance management framework

Strategic activites	Operational activites
• Community plan (SOA) & national targets • Corporate plans • Themed partnership group actions	• Self-assesment • Service plans (including financial and non-financial perofmance information)

178. The Council's updated approach now aims to embed a culture of self-assessment by concentrating on a small number of corporate assessments, over a three year period, against the following key themes within the PSIF:

Exhibit 11: Key themes within the PSIF

- Customer focus
- Governance & accountability
- Management and development of employees
- Knowledge and information management and improvement
- Corporate social responsibility
- Leadership, vision and strategic direction
- Efficiency
- Equalities
- Sustainability

179. Where appropriate, self-assessments incorporate aspects of the best value 2 corporate assessment framework and Audit Scotland's best value toolkits. During 2014/15 the Council has focussed on two areas: customer focus and sustainability. The self-assessment work has been taken forward through officer working groups and in both cases the Council has identified opportunities for improvement.

Statutory performance indicators

180. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2013 Direction, which applied to 2014/15, 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 2013/14, performance information must, when considered cumulatively, fulfil the requirements of SPI 1 (Corporate Management), SPI 2 (Service Performance) and SPI 3 (Local Government Benchmarking Framework (LGBF)).

181. The LGBF was developed by the Improvement Service at the request of the Society of Local Authority Chief Executives (SOLACE). The LGBF comprises of a suite of performance indicators which are comparable across all Scottish local authorities. These have been principally taken from existing sources. A small number of the LGBF indicators were previously collected as specified statutory performance indicators.

182. Our role as external auditors, as defined in the 2013 Direction is to assess whether adequate arrangements are in place for collection and publication of accurate and complete information in relation to Public Performance Reporting (SPI 1 and 2) and the Local Government Benchmarking Framework (SPI 3). In order to fulfil this role we performed sample testing of service performance indicators. From the sample testing we performed we concluded that the Council has adequate arrangements in place. In total we carried out a high level review of thirteen indicators, all of which were found to be reliable. Indicators were selected using a risk-based methodology and taking into account the work performed by internal audit so as to avoid duplication of effort. We note that the Council continues to liaise with the Improvement Service as part of the LGBF and made their 2014/15 submission in line with the required deadline of 28 August 2015.

183. Internal audit performed sample testing on twelve SPIs selected from across the council and also considered the outcomes of the Public Performance Reporting assessment completed by the Accounts Commission. Reasonable assurance was gained over the arrangements in place and it was noted that a full report from management on planned actions arising from the Accounts Commission report will be submitted to the Audit and Governance Panel meeting in November 2015. We will continue to monitor recommendations identified and actions taken.

184. The LGBF has identified a total of 15 benchmarking themes to be undertaken across four phases, with the third and fourth phases commencing in June and October 2015 respectively. To June 2015 the Council has participated in six of the eight possible benchmarking activities as part of their family group. These are;

- Waste management
- Council tax
- HR
- Equalities
- Museums
- Looked after children

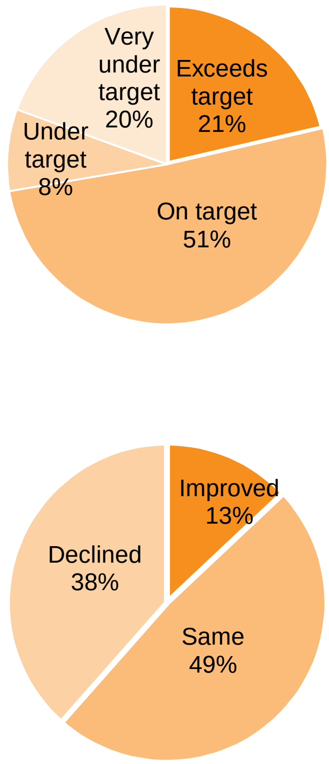
185. The Council is actively engaging in each of the above programmes and is the appointed lead council for the museums activity. Each activity group has had an initial meeting and some are at a more advanced stage than others.

186. The Council is also an active member of the two programme groups led by the Improvement Service, the Learning Event Group and the Steering Group. The Learning Event Group is looking at methods of planning and delivering each learning event for all councils and the Steering Group is looking at the current framework and family group processes to identify areas for improvement. The Council will continue its involvement in furthering developments in each of these areas.

Summary of performance

187. The exhibit below summarises the Council's performance against the suite of SPIs. Performance compared to the prior period has been broadly positive. Over half of the indicators are on target with a further 21% exceeding target. In addition for 49% of indicators performance was consistent with 2013/14 and a further 13% performance has improved in comparison with the prior year.

Exhibit 12 – Comparison of Council performance against target and prior year



Public Performance Reporting

188. In July 2015, following consultation with external auditors and Council management, Audit Scotland reported its evaluation of how well councils fulfilled their duties on public performance reporting during 2013/14. This evaluation sought to:

- Provide the Commission with an evaluation of how well councils have responded to:
  - SPI 1 and 2 (by reporting a range of corporate management and service performance information, sufficient to demonstrate Best Value).
  - SPI 3 (by reporting service performance in accordance with the

requirements of the Local Government Benchmarking Framework.).

- Identify where public performance reporting (PPR) has improved and where further improvement is still required in relation to councils demonstrating a broad and balanced approach to PPR that reflects the requirements of the 2004 statutory guidance.

189. In contrast to previous year's reviews, Audit Scotland applied an assessment rating to each theme under SPI 1 and 2 of either Yes (fully meets requirements) or AFI (area for improvement). Previously the assessment rating had been "Fully", "Partially" or "Not" meeting the criteria.

190. The previous year's single assessment criteria applied to each theme under SPI 1 and 2 has been expanded into a larger number of assessment characteristics within each theme. Also the previous year's assessment covering 3 "general PPR characteristics" has also been expanded into 7 broad themes, each with their own range of assessment characteristics.

Exhibit 13 - Audit Scotland's assessment of North Lanarkshire Council's PPR arrangements in 2013/14

2012/13 Themes "Not" meeting criteria out of a total of 21	• Assets (SPI 1) • Employees (SPI 1) • Planning (SPI 2) • Comparison of performance to others (General)
2013/14 Themes listed as "AFI" out of a total of 26	• Assets (SPI 1) • Benefits administration • Criminal justice social work (SPI 2) • Accessibility - Making information regarding available translation or interpretation services easier to find (overall aspects)

191. The outcome of the 2013/14 evaluation shows that the council continues to improve its PPR in terms of SPI 1 and 2 and fully meets the requirements of SPI 3. Of the four themes not meeting the criteria in 2012/13, three have improved in 2013/14 (i.e. employees, planning and comparisons with others).

192. A total of two themes which "fully" met the criteria in 2012/13 have been assessed as AFI in 2013/14 (i.e. benefits administration and criminal justice social work). The adoption of a revised assessment methodology by Audit Scotland in 2013/14 is likely to have been a significant contributing factor in this. Accessibility has also been assessed as AFI however this is a new assessment area this year.

193. However, as noted by the Accounts Commission, there remains scope for further improvement in terms of PPR across all local authorities in Scotland. The 2013/14 assessment provides a good basis for the Council to be able to identify gaps and learn from good practice highlighted in other councils.

Audit Scotland's national performance reports

194. Each year Audit Scotland produces a number of national performance audit reports. In 2014/15 the following relevant reports were published:

Exhibit 14 - Audit Scotland national performance reports issued in 2014/15

- Major capital investment in councils – April 2014
- Self-directed support – June 2014
- School education – June 2014
- Community planning – November 2014
- Borrowing and treasury management – March 2015
- An overview of local government in Scotland – March 2015

195. Local authorities are encouraged to review the national reports and consider whether any improvement actions are required in their own arrangements. North Lanarkshire Council has an established process in place for considering these national performance audit reports. All relevant national performance audit reports are presented to its Audit and Governance Panel on a timely basis. The Panel receives a management overview of the report which summarises the key issue therein and, where appropriate, a management response is given to any issues flagged up. We consider that the process in place ensures that appropriate scrutiny is given to Audit Scotland's national performance audit reports.

6

Appendices

Appendix 1: Respective responsibilities of the Council and the Auditor

Responsibility for the preparation of the annual accounts

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 annual accounts 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 annual accounts, 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 annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the body as at 31 March 2015 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 2014/15 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 2014; and
- the information given in the Management Commentary is consistent with the annual accounts.

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 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.

Independence

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.

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 annual accounts 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	Issue & Recommendation	Management Comments
1 **Rating** **Amber** **Paragraph ref** **20**	**Equal pay** Payments in respect of equal pay claims have been made by the Council spanning a number of years and for rated as equivalent, equal value, pay protection and job evaluation challenges. The Council has incurred approximately £40million to 31 March 2015 and has provided for a further £78million in its annual accounts. There also remains a possibility of further legal claims and a contingent liability is noted within the annual accounts in respect of this. The Council needs to ensure that it ensures current pay and grading arrangements minimise any future equal	Appropriate management arrangements have been established to progress necessary actions with regard the re-evaluation of a number of posts. This includes the appointment of an Independent Technical Expert, the establishment of a job re-evaluation team and a Joint Re-Evaluation Board comprising management and trade union representatives to oversee the process, with a view to concluding the re-evaluation process in December 2015. The Council will continue to review, on an on-going basis, any emerging issues relating to equal pay in order to identify any which might impact the Council and ensure that any remedial actions

Action plan point	Issue & Recommendation	Management Comments
	pay risks and in that regard it needs to satisfactorily progress a range of actions it has identified as necessary as a result of the decision made in March 2015 to approve the settlement of a range of equal pay claims.	necessary are identified and progressed at an early stage in order to minimise any future liabilities. **Responsible Officers:** Head of Human Resources and Head of Democratic and Legal **Completion Date**: December 2016/ongoing

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Green** **Paragraph ref** **40**	**Management Commentary** As part of our audit we reviewed the Council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). From this review we believe that there are areas in which the Council could further develop its commentary in future years:	The Council believes that it substantively meets the requirements of LGFC and has well-established arrangements for public performance reporting. However, Financial Services will consider whether scope exists for future development of the management commentary contained within the 2015-16 annual accounts as part of the accounts finalisation process. **Responsible Officer:** Head of Financial Services **Completion Date:** June 2016

Action plan point	Issue & Recommendation	Management Comments
3 **Rating** **Green** **Paragraph ref** **49**	**Related parties** During our audit we noted that the amounts disclosed in respect of outstanding balances due from/to related bodies are understated. It was not possible to, for example, reconcile these amounts to the Council's group bodies individual financial statements disclosure on related party transactions. In preparing this note in the annual accounts, information was obtained from the Council's system generated reports. These did not take account of 'manual' accruals prepared by Services. This understatement was not material to the 2014/15 annual accounts. The Council should review it's arrangements for collecting the information required for this disclosure.	This issue relates to non-material differences arising in a minor disclosure note but not withstanding this, a review of the arrangements relating to the related party note will be undertaken with amendments made to the relevant process where this is considered to be materially necessary or appropriate. **Responsible Officer:** Head of Financial Services **Completion Date:** April 2016

Action plan point	Issue & Recommendation	Management Comments
4 **Rating** **Green** **Paragraph ref** **51**	**Property, plant and equipment** We identified a small number of minor issues relating to the capitalisation of expenditure related to fixed assets and to the classification of fixed assets. Although these matters are not material, the Council should remind relevant staff of the need to ensure all relevant year-end documentation is completed in an accurate and timely manner.	Management considers that the general arrangements relating to fixed asset accounting worked well and that the issues raised are of a minor nature. However, all staff involved in matters relating to fixed asset accounting will be reminded of the requirements and expected arrangements in relation to the capitalisation of relevant expenditure and the classification of fixed assets. **Responsible Officer:** Head of Financial Services **Completion Date:** February 2016

Action plan point	Issue & Recommendation	Management Comments
5 **Rating** **Green**	**Single fraud investigation service** The change in service delivery has yet to be fully embedded. A Service Level Agreement (SLA) was established at the time of transfer which details the information exchange requirements to be	As part of the SLA renegotiation the Council will request the DWP to provide more comprehensive management information on the progress and outcome of fraud cases to enable more effective monitoring of performance.

Action plan point	Issue & Recommendation	Management Comments
Paragraph ref **101**	followed by the DWP and the Council. We understand performance against the SLA is not routinely monitored or reported within the Council. In addition the outcomes of fraud cases investigations are not routinely reported by DWP to the Council. The Council should agree an approach to resolving this issue with the DWP.	**Responsible Officer:** Revenues and Benefits Manager **Completion Date:** February 2016

Action plan point	Issue & Recommendation	Management Comments
6 **Rating** **Amber** **Paragraph ref** **119**	**Health and Social Care Integration** We note that the Council's current risk register and Annual Governance Statement in the accounts does not fully capture many of the significant risks associated with the creation of a new integrated body to deliver a complex range of adult care services or the assurance framework adopted by the Council for managing and mitigating these risks. The Council should ensure arrangements are in place to update the risk registers to capture those risks associated with the new integrated body.	The Council is currently establishing a range of operational, finance and governance arrangements designed to ensure efficient and effective delivery of social care, sound financial management and the achievement of effective corporate governance arrangements relating to its relationship with the new Integrated Joint Board. As part of this on-going work, Service and Corporate Risk registers will be updated to include all relevant risks arising from the current integration of health and social care and the creation of the new Integrated Joint Board. **Responsible Officer:** Executive Director of Housing and Social Work Services **Completion Date:** March 2016

Action plan point	Issue & Recommendation	Management Comments
7 **Rating** **Amber** **Paragraph ref** **148**	**Audit and Governance Panel** Both the former and current Convener are part of the ruling administration. Audit Scotland and the Accounts Commission continue to point out that in their view the chair should be independent of the administration. The Council should continue to regularly review the operation and governance of the Audit and Governance Panel in light of best	The Audit and Governance Panel recently considered and approved the results of a self-assessment which showed a high-level of compliance with expected good practice and assessed the Panel as largely effective in discharging its role and responsibilities. An improvement plan was agreed and progress implementing agreed actions will be reported to future meetings of the Panel. The specific matter raised in respect of the 'chair' is due for further

Action plan point	Issue & Recommendation	Management Comments
	practice.	consideration by elected members in light of a motion submitted for discussion at the Council meeting due to be held on 1 October. **Responsible Officer:** Council **Completion Date:** October 2015

Action plan point	Issue & Recommendation	Management Comments
8 **Rating** **Amber** **Paragraph ref** **173**	**Management capacity** In August 2015, the Chief Executive appeared before the Audit and Governance Panel to present a report with management responses to the issues raised in the audit report on the housing and non-housing repairs contract. In presenting his report, Chief Executive identified "*extensive change in the composition of the CMT and in other Chief Officer posts, as well as managing a very demanding agenda*" as contributing factors leading to the issues highlighted in our report. Issues regarding capacity have also been raised following a recent internal audit review entitled 'Service and People First – Transformation Programme'. In the report internal audit state that management should ensure that sufficient capacity and management structures are in place for the successful delivery of transformation projects. We support the comments of both the Chief Executive and internal audit function and recommend that the Council carries out a review of management capacity to ensure it can adequately address the challenging agenda it faces.	The importance of ensuring sufficient management capacity is maintained to progress key priorities, projects and transformational change will be considered along with a number of other considerations as the Council continues to develop and implement future savings proposals. This will be addressed by continuing the practice adopted over recent years where the Council's overall establishment is reviewed on an annual basis to not only implement the agreed savings plan but also to ensure that sufficient strategic corporate capacity is maintained and developed within the organisation **Responsible Officer:** Chief Executive **Completion Date:** February 2016 and annually thereafter

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