



Scott-Moncrieff
business advisers and accountants

North Lanarkshire Council

Annual report on the 2015/16 audit
to the Council and the Controller of Audit

September 2016

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Executive summary

Annual accounts

The annual accounts for the year ended 31 March 2016 were approved by the Audit and Governance Panel on 28 September 2016. We reported within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and there were no matters which we were required to report by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the Council for their assistance with our work.

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 financial statements. We have not identified any significant deficiencies in the operation or design of the key financial systems.

Financial sustainability

In February 2016, the Council approved a balanced budget for 2016/17. An initial budget gap of £56.754million was met by cost savings, the use of money set aside for winter maintenance and the acceleration of savings originally scheduled for delivery in 2017/18.

The Council recognises that the financial challenge is unlikely to reduce in the short to medium term and it anticipates budget gaps of £33.139million in 2017/18 and £57.452million in 2018/19 will have to be addressed.

From 1 April 2016 the North Lanarkshire Integration Joint Board (IJB) took on formal responsibility for the strategic planning and direction of health and social care services in North Lanarkshire. Development of the strategic and operational arrangements continues to evolve. At the time of our audit, Council management had still not concluded on the due diligence process undertaken and as a result internal audit's review had not been concluded. Despite significant amount of work carried out, the initial budget offer for 2016/17 was only formally presented to the IJB in May 2016, after the start of the financial

- The Council spent £1.049billion on the provision of public services in 2015/16.
- Cash backed reserves held by the Council were £90.805million as at 31 March 2016; of which £63.664million relates to general fund balances.
- £51.664million of the general fund balance was earmarked for future purposes with the remainder representing an approved reserve level of £12million.
- Between 2005/06 and 2015/16 the Council has paid out £111.972million in respect of equal pay compensation claimants to over 6,500 claimants.
- The Council delivered on 87% of its 2015/16 approved capital programme of £138.621 million.

year. Further work is required to ensure elected members are fully informed of the impact of integration and where responsibility and accountability sits.

Governance and transparency

Based on our review of the Council's governance arrangements we concluded that these are adequate and appropriate although a number of weaknesses have been identified and included within this report.

During 2015/16 a new leader of the Council was appointed and there were a number of changes to the Conveners of Council committees. A new Chief Executive was also appointed in October 2015, and a number of structural changes were subsequently implemented. Under the new structure the number of officers paid at director equivalent level has reduced from five to three and the total number of Chief Officers has reduced from 26 to 21.

The Council took the opportunity to change the convener of the Audit and Governance Panel from a member of the political administration to a Councillor outside this administration. We welcome this development.

The Council recognises the needs to maximise the benefits received from the operation of its ALEOs. A partnership unit now has responsibility for consolidating performance management for all

significant ALEOs and a new ALEOs and External Bodies Monitoring Committee has been established.

Internal audit are currently investigating a number of serious allegations in relation to the Council's procurement processes. A formal report on their findings will be brought to the Audit and Governance Panel in November.

We have noted examples throughout our appointment were reporting to elected members was inadequate and failed to properly set out the full financial impact of a decision before asking for that decision to be made. We have recommended that staff are reminded of the need to ensure reports contain all key information required to support properly informed decision-making by elected members.

Value for money

The Council adopted the Public Service Improvement Framework (PSIF) in 2008 and since then has carried out a series of service level self-assessments.

Since 2015, the Council's Scrutiny Panel's challenge and scrutiny process has been undertaken through real time performance reviews using PerformNL, the Council's performance management software. In 2015/16 the Scrutiny Panel undertook four real time performance reviews.

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 2015/16. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
September 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 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 2015/16 have been:
 - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
 - An audit of the annual accounts;
 - 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;
 - Completion of targeted follow up work in relation to Audit Scotland’s national performance report “Scotland’s Public Sector Workforce”; 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 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.
5. 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.
6. 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.
7. 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

8. 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.
9. In this section we summarise the issues arising from our audit of the 2015/16 annual accounts.

Overall conclusion

An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2016 were approved by the Audit and Governance Panel on 28 September 2016. We reported within our independent auditor's report:
 - An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.

Good administrative processes were in place

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

Our assessment of risks of material misstatement

12. 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 Equal pay

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, as at 31 March 2015, the Council 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.

During our audit of the annual accounts we will consider the Council's accounting treatment and disclosure in relation to equal pay and ensure compliance with the relevant accounting standards.

Noted in 2015/16 External Audit Plan



13. A provision in respect of equal pay claims has been recognised by the Council since 2005/06. Over this ten year period the Council has charged £130.027million to its Comprehensive Income and Expenditure Statement in relation to: rated as equivalent, equal value, pay protection and job evaluation challenges. Of this total £74.605million (57%) was charged between 2013/14 and 2014/15 and related to pay protection and job evaluation claims.
14. Between 2005/06 and 2015/16 the Council has paid out £111.972million in respect of equal pay compensation claimants to over 6,500 claimants (this includes amounts for solicitor's fees, payments to HMRC and other necessary costs associated with the settlement of these cases). These payments have been met largely through the use of contingency funding and

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

in-year surpluses. In 2013/14 a capital receipt of £45million from the transfer of the Council's property portfolio to a subsidiary (North Lanarkshire Properties) was used to finance principal debt repayments and thus release general fund reserves for the financing of equal pay claims.

- 15. During 2015/16 a job-evaluation exercise was completed which resulted in a number of posts being re-graded and a subsequent liability to pay £5.885million to affected individuals. In addition the Council recognised a further increase of £5.875million in relation to previous non-claimants for pay protection and job evaluation challenges. We have performed detailed audit testing on these amounts and have found them to be reasonable and fairly stated.
- 16. Since the balance sheet date the Council has paid out a further £2.598million in respect of claims provided for in 2014/15. This leaves only £3.697million of the opening provision remaining unutilised to date.

1.2 Revenue recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Council could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2015/16 External Audit Plan



- 17. 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.

1.3 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 ISA 240.

Noted in 2015/16 External Audit Plan



- 18. 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

19. 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.
20. Our initial assessment of materiality for the group annual accounts was £9.2million. We revised our assessment, following receipt of the draft annual accounts, to £11.8million 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 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.
21. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We 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:

Area risk assessment	Weighting	Performance materiality
High	40%	£4.72million
Medium	55%	£6.49million
Low	75%	£8.85million

22. We agreed with the Audit and Governance Panel that we would report on all audit differences in excess of 2% 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

23. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.
24. 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 Head of Business for Financial Solutions 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

25. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Governance Panel in February 2016. 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.
26. 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.
27. 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

28. 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.

29. 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

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

The Local Authority Accounts (Scotland) Regulations 2014

31. As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

32. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual 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.

33. 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.

34. 2014/15 was the first year the Council was required to include a management commentary in the annual accounts. In our 2014/15 annual report on the audit we noted that while the Council had, in the main, addressed the key requirements of the Circular, there were a number of areas where we considered the management commentary could be further developed.

35. From our review of the 2015/16 management commentary, it is evident that the Council has continued to develop its management commentary. There are however, in our opinion, areas which could still be expanded on. In particular:

- 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 1

Annual governance statement

36. 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.

37. 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.

¹ Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Remuneration report

38. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.
39. We noted during our audit, that the unaudited Remuneration Report excluded compensation payments for loss of office relating to the Council's senior employees who left the organisation during the year.
40. The Remuneration Report has been revised to correct for the above observation and a small number of other minor disclosure changes were made. We are satisfied that the Remuneration Report now includes all relevant disclosures and is in agreement with the accounting records.

Significant trading operations (STOs)

41. Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period.
42. From 1 April 2014 the Council replaced its existing five STOs with one combined STO covering all external services (Building Cleaning, Waste Management and Fleet Operations).
43. The STO has reported a surplus position over the two years (since its formation). In 2015/16, the STO reported a surplus of £0.248million and a cumulative two year surplus of £0.679million. Incorporated within this cumulative surplus of the STO is a reduction in equal pay provision of £0.163million.

Property, Plant and Equipment

44. During our audit we identified a couple of issues relating to the accounting treatment on property, plant and equipment:
 - Our audit work identified that the remaining useful lives of Housing Revenue Account (HRA) non-current assets had not been updated to reflect the remaining useful lives in accordance with their annual revaluation. The result of this error is the overstatement of the HRA depreciation charge by £2.436million.
 - During the audit we also identified that the Council had overstated the reversal of an

impairment to a HRA non-current asset in a previous year. The result of this error is the understatement of the revaluation reserve by £0.686million, with a corresponding overstatement of the capital adjustment account.

45. While these matters are not material to the 2015/16 annual accounts, the Council should include procedures within the accounts preparation process to ensure depreciation and impairments are appropriately accounted for.

Action plan point 2

Charitable trust funds

46. The Council administers five charitable trust funds (previously twelve; refer to paragraph 49). It 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 a registered charity. The total trust fund balance as at 31 March 2016 amounts to £1.151million of which £1.051million relates to those registered charitable trust funds referred to above.
47. 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 trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.
48. We have audited the Council's 2015/16 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 funds 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.

Reorganisation of the Council's charitable trust funds

49. During 2015, a significant amount of work was carried out to progress the consolidation of the charitable trust funds. Of the 12 charitable trust funds, seven applications for re-organisation/transfer were approved by OSCR. These charitable trust funds were removed from the charity register in October 2015.
50. The Council intend to transfer the remaining five charitable trust funds in a similar manner in 2016/17 however the timescale is dependent on identifying suitable beneficiaries for the Trusts and the subsequent approval by OSCR.
51. We are satisfied that the Council has taken reasonable steps to ensure the charitable trust funds are efficiently and effectively administered.

Looking forward

Highways Network Assets

52. The 2016/17 edition of the Code of Practice on Local Authority Accounting will adopt the measurement requirements of the Code of Practice on the Highways Network Asset. This will require Highways Network Assets (HNA) to be measured on a depreciated replacement cost basis (currently the valuation is based on historic cost). The HNA comprises urban and rural roads, footways and cycle tracks, street lighting, furniture, associated land and highways infrastructure such as bridges. The move to a depreciated replacement cost basis will have a significant impact on values currently included in local authority balance sheets. For example the current estimated depreciated replacement cost of North Lanarkshire Council's HNA is approximately £3.3billion compared to an historic cost valuation of £214million.
53. There is no requirement to change preceding information and the change should be accounted for as an adjustment to the opening balance as at 1 April 2016.
54. The move to depreciated replacement cost for HNA is a significant change to the Council's financial accounting arrangements and has involved significant work to bring together information on the highways network within the
- accounting records of the Council. As part of our 2015/16 audit we have considered the Council's progress in preparation for the implementation of the new requirements.
55. 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.
56. As the valuation of the carriageway represents approximately 54% of the total HNA value, key to establishing an accurate value within the annual accounts is establishing the carriageway lengths, widths and condition. In arriving at this information the Council has used information from the National Street Gazetteer and digital information extracted from Ordnance Survey to arrive at road lengths and widths; with road condition being determined by a condition survey undertaken on road surfaces. The frequency the survey is carried out depends on the nature of the carriage way e.g. 'A' class roads are surveyed once per year each way and unclassified roads are surveyed on a random sample basis using a rolling 4 year basis.
57. There is currently no uniform approach being adopted across the 32 local authorities to deriving road lengths and widths, with some authorities using a polygon approach. Upon re-measurement, using the polygon approach different carriageway lengths have been arrived at. The Council currently has no plans to base its asset lengths on polygons. The Council needs to consider what level of materiality it is using in preparing the annual accounts i.e. the threshold above which missing or incorrect information used in computing the HNA value in the annual accounts is considered to have an impact on the decision making of users. We recommend that in using this materiality threshold further consideration is given to using a methodology based on polygons.
58. Inevitably there is significant estimation uncertainty in using the proposed methodology for valuing HNA. The Section 95 officer should

Action plan point 3

look for assurances nationally and from roads and transportation colleagues that:

- The register of HNA items including lengths, widths and condition is materially correct;
- The methodology used to arrive at these figures is appropriate for local circumstances and that it will provide a materially accurate figure for the annual accounts;
- The model, central rates and individual regional factors used in the calculation of HNA values have been sufficiently verified in line with the CIPFA Code requirements.

Action plan point 3

59. The impact of including HNA's in the annual accounts is significant and internal audit should be asked to review the figures and assumptions used to provide independent assurance as to their accuracy.

Action plan point 3

Follow up of prior year audit recommendations

60. As part of our audit we have followed up on the recommendations raised in our 2014/15 Annual Report on the Audit. The following table indicates the number of issues that have not been fully completed or the completion date has not yet passed.

Total number of recommendations raised in our 2014/15 Annual Report	Complete	Not yet complete
8	5	3

61. Those actions which are yet to be fully completed relate to the following areas:
- Equal pay (not yet due to be completed; December 2016/ongoing completion date)
 - Single fraud investigation service (partially complete)
 - Health and social care integration (partially complete)
62. Further detail on these recommendations was reported to the Audit and Governance Panel in August 2016 in a report by the Head of Audit

and Inspection: 'Update on implementation of actions agreed by management in response to previous internal audit and external audit recommendations'.

Qualitative aspects of accounting practices and financial reporting

63. 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 are 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

64. 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 2015/16

65. The 2015/16 Comprehensive Income and Expenditure Statement shows that the Council spent a total of £1.049billion on the provision of public services resulting in an accounting surplus of £23.777million. However, the accounting surplus includes certain elements of income and expenditure that need to be

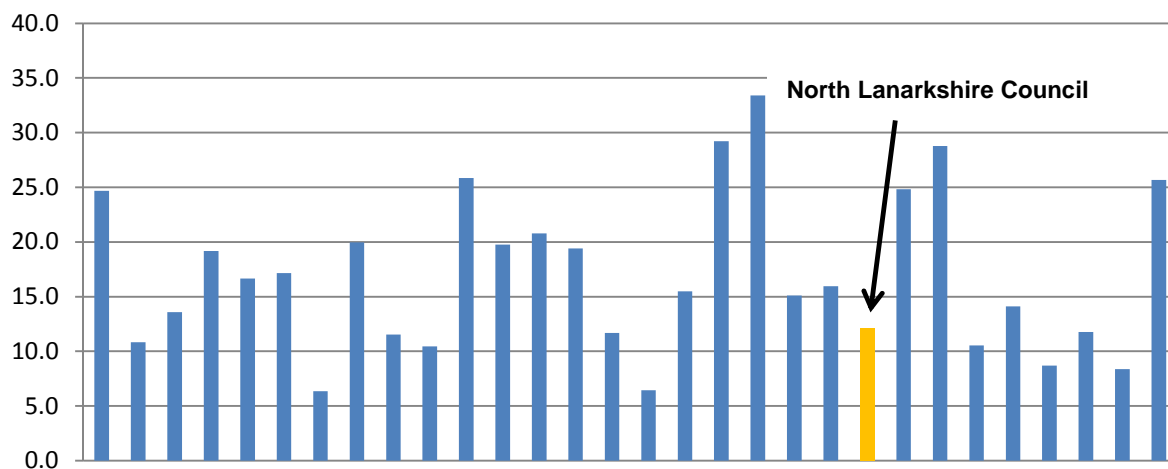
accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory council reserves.

66. 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 £0.638million to £63.664million. In total the cash backed (useable) reserves held by the Council increased by £0.088million in the year to £90.805million.

Movement in the Council's useable reserves per the Annual Accounts 2015/16	2015/16 £million	2014/15 £million	Movement £million
General Fund	63.664	64.302	(0.638)
Housing Revenue Account	10.493	9.199	1.294
Capital grants unapplied account	1.738	3.182	(1.444)
Insurance fund	13.687	12.728	0.959
Repairs and renewals fund	1.223	1.306	(0.083)
Total useable reserves	90.805	90.717	0.088

67. 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 12% remains close to the both the mean (17%) and the median (16%) for the sector in 2015/16 and supports our view that the Council has adequate financial management arrangements in place.

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



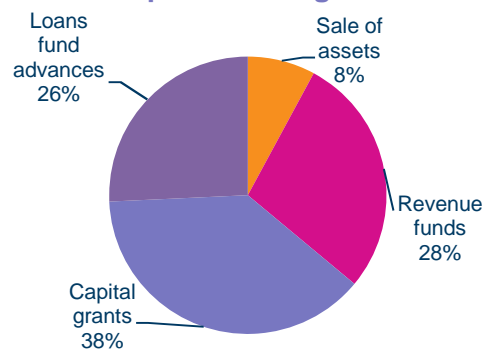
The chart has been compiled from data made available by Audit Scotland and Shetland and Orkney Islands Councils have been omitted from the comparison as their level of reserves may distort the assessment.

68. In 2015/16 £51.664million of the general fund balance was earmarked with the remainder representing an approved reserve level of £12million. Of this reserve level £0.662million is to be used to support 2016/17 cost pressures. The 2015/16 budget surplus has been fully allocated in the 2015/16 final accounts to fund equal pay costs (£11.730million), change management fund allocation (£8.988million) and construction arbitration (£1.040million). Significant savings against the 2015/16 budget which enabled this funding included employee cost savings of £10.233million and departmental underspends of £10.304million. The main component of these underspends was a reduction in payments made to others bodies due to reduced care home charges.

Capital position

69. During 2015/16 the Council made total capital additions of £120.133million. Of this £65.033million were general fund additions and £55.100million were HRA additions. In so doing the Council delivered on 82% (88% in 2014/15, 92% in 2013/14) of the approved general fund capital programme and 93% (90% in 2014/15, 87% in 2013/14) of the HRA approved capital programme. Overall the Council delivered on 87% of the approved capital programme of £138.621 million. This was funded as shown in Exhibit 3.

Exhibit 3 – Capital Funding



Housing revenue account

70. The HRA Income and Expenditure Statement shows total expenditure for the year of £95.036million, resulting in an accounting surplus of £6.074million. As with the Council's Comprehensive Income and Expenditure Statement, adjustments are required to show the impact on the statutory reserves. The HRA reserve at 31 March 2016 was £10.493million; an increase of £1.294million. The variance between the accounting surplus and the reduction in the reserve is due to £4.673million of adjustments, principally due to the treatment required for the funding of capital expenditure.
71. At the year-end £3.664million (35%) of the HRA reserve remained unallocated. At its meeting

on 18 August 2016 the Housing and Social Work Committee approved the allocation of a further £1.935million leaving a current unallocated balance of £1.729million.

Systems of internal control

72. 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.

73. 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 4 – Key financial systems evaluated in 2015/16

Council tax	Non domestic rates	Cash receipts and banking	Housing rents	Sundry income
Payroll	Treasury management	Financial ledger	Members remuneration / expenses	IT controls

Payroll

74. The Council took the decision to migrate HR and Payroll from Cyborg to iTrent in order to achieve cost savings through improved efficiency arising from an integrated HR and Payroll system and greater self service capability, reducing the reliance on paper based instructions and amendments.

75. As part of our external audit we performed a review of the processes for the migration and operation of the new HR and Payroll system; iTrent. Our findings from this review were previously reported to the meeting of Audit and Governance panel on 31 August 2016.

76. Our review identified several areas of good practice, one of which was the use of parallel running as part of the migration process from

Cyborg to iTrent. Our review identified areas for improvement in the control environment for iTrent. A summary of the most significant are as follows:

Areas for improvement in the control environment for iTrent

The iTrent system is hosted and managed by MidlandHR. We noted that business continuity plans have not been reviewed by HR and Payroll teams following implementation of the system.

There is a need to ensure a consistency in the access provided to users. We identified that system access privileges allocated to users between initial implementation of the system (16 September 2015) and December 2015 were not role based and were determined on an individual basis. A number of these users have system administrator level privileges. As a result, we were unable to confirm that access privileges provided ensure robust segregation of duties.

There is a need to improve controls over system administration accounts assigned to MidlandHR personnel. We noted that not all MidlandHR user accounts were disabled and there was no apparent business reason for these being active. We also noted that there is no monitoring of access made to iTrent using accounts with system administration privileges.

77. An action plan was agreed with management to address the weaknesses identified within our report.

Internal audit

78. 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 Head of Audit and Inspection. This year the Head of Audit and Inspection reported that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year, with four 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 had not been made since the prior year;

- 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. Such a review is however now complete;
- The difficulty in assessing by 31 March 2016, whether the Council's actions taken in response to the external auditor's report on the Housing and Non-Housing Property Repairs contract have appropriately addressed the governance weaknesses identified; and
- The on-going work being undertaken in relation to recent allegations about certain aspects of the Council's procurement arrangements and the potential impact this work might have, when concluded, on assessment of the Council's internal control arrangements.

79. 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.

80. We have concluded that internal audit operates in accordance with the PSIAS however we have not placed specific reliance on any internal audit reviews this year. Our review was informed by the self-assessment carried out by the Council's Head of Audit and Inspection during 2015/16 which identified that, whilst there were areas with scope for improvement, there were no significant deviations from the PSIAS. The results of this review were

reported to the Audit and Governance Panel in August 2015.

81. A formal external assessment of internal audit's compliance with the PSIAS is required at least once every five years. The national grouping of Heads of Internal Audit of Scottish councils has developed a framework to meet the requirement for an external assessment through a peer review process. The peer review process of the Council's compliance with the PSIAS has begun and was informed by the self-assessment completed during 2015/16. The self-assessment and supporting evidence was passed to the external assessor (Head of Internal Audit – Perth & Kinross Council) in March 2016. We understand that the results of this external assessment will, in due course, and in line with PSIAS requirements, be reported to the Audit and Governance Panel.

4

Financial sustainability

Financial sustainability

82. 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

83. In May 2014, the Council approved a long term financial plan 2014-2024. The plan outlines how the Council plans to achieve long term financial stability given the significant challenges it expects over the term. The plan aims to support the Council in the delivery of the strategic priorities and objectives outlined in the Corporate Plan and the Community Plan.
84. The financial plan 2014-2024 is based on a range of financial assumptions and has been informed by scenario planning. The assumptions within the plan were updated in June 2015, in order to recognise a range of pressures which collectively resulted in an estimated funding gap to 2017/18 totalling £80million.

Service and People First

85. In 2007 the Council introduced the change management programme 'Service and People First'. Following an initial term of five years the programme was extended through to 2016 with the agreement of a further three year savings package totalling £62.4million (subsequently reduced to £58.7million).
86. 2015/16 represented the final year of the Service and People First programme. £14million of savings were achieved in 2015/16, bringing the overall savings total since 2013/14 to over £55million.

Budget consultation

87. In 2014 the Council undertook the 'One Vision' programme to consider emerging priorities, challenges and opportunities in the short and long term. Over the course of 2015, options were developed by the Council to address the financial challenges expected through to 2018. These options were presented to the public through the 'Our Budget Challenge' consultation. The consultation exercise directly informed the Council's savings plans for 2016/17 and beyond.

Medium term financial planning

88. In September 2015 the Council reported an updated medium term financial outlook to 2018. The update advised members of an indicative two year savings requirement of £75.550million. Following committee approval of draft savings options, the savings requirement was revised downwards to £68.278m with £37.116million being required for 2016/2017.

Scottish Government financial settlement

89. The Council's assessment of the required savings for 2016/17 and beyond was predicated on a range of assumptions, including those made on the Scottish Government financial settlement. The Council's envisaged scenario had anticipated revenue funding would decrease in cash terms by 0.9% in 2016/17 (equating to £5.31million) and 2.5% in 2017/18. The reduction in local government settlement announced by the Scottish Government was in excess of that estimated by the Council and Local Government body CoSLA.
90. The agreed financial settlement resulted in a revenue reduction of 3.9% in cash terms for 2016/17. This had a significant negative impact on the Council's financial plans giving a total savings requirement for the year of £56.754million.



91. The settlement, and the implications it had on the Council's plans, were reported to the Policy and Resources Committee in January 2016. At that time, given the inherent uncertainties involved in the settlement beyond 2016/17 the Council chose to develop a one year budget plan for 2016/17, moving away from the previously planned two year budget.

2016/17 revenue budget

92. In February 2016, following the consideration of further savings options, the Council was able to approve a balanced budget for 2016/17.
93. The budget gap was reduced from £56.754million to £42.478million by taking into account base budget adjustments of

£13.276million identified by services as having minimal or no impact on services, staffing or existing policies and a reduction of £1million in the required spend on the Council Tax Reduction Scheme.

94. Further amendments were made to the estimates for expenditure requirements for 2016/17 and the resources available, including recognition of the cost pressures, savings options and dedicated Scottish Government funding which would be attributable to the North Lanarkshire Integrated Joint Board (IJB). Additionally, the Council approved:

- the application of the £1.25million Winter Maintenance Reserve to support the 2016/17 financial position; and
- the one-off use of £5.2million of resources earmarked to support welfare reform and the Schools and Centres 21 programme (in 2015/16 £7.1million of these resources had also been applied on a one-off basis).

95. The adjustments and re-estimates outlined above led to a remaining budget gap of £19.594million for 2016/17:

Composition of the 2016/17 budget	£million
Expenditure requirement	(765.329)
Resources available	745.735
Savings required	(19.594)

96. The Council was able to meet the £19.594million budget gap through the application of savings identified during the 'Our Budget challenge' consultation supported by additional savings originally scheduled for delivery in 2017/18. In total the Council was able to identify savings options totalling £19.876million that were approved in order to reach a balanced budget.

Forecast funding gaps

97. Setting a balanced budget for 2016/17 has been particularly challenging and has required the use of non-recurring funding sources and the application of earmarked reserves. The Council recognises that the financial challenge is unlikely to reduce in the short to medium term and it anticipates budget gaps of £33.139million in 2017/18 and £57.452million in 2018/19 will

have to be addressed.

Forecast funding position	2017/18 £million	2018/19 £million
Expenditure requirement	(753.018)	(775.009)
Resources available	719.879	717.557
Forecast funding gap	(33.139)	(57.452)

Changes in the strategic approach to budgeting

98. While the One Vision consultation exercise informed savings plans for 2016/17, the Council considers its general approach to budget setting in recent years to have been too dominated by the need to identify savings. In June 2016 a new strategic approach to budgeting was proposed, with the following guiding principles:

- The focus of the budget setting process should be on establishing and funding priority services rather than just on delivering a required level of savings.
- Proposals to establish priority services should be assessed against corporate priorities and should clearly demonstrate how each service contributes to these.
- Resultant areas of consideration for savings proposals should flow from this process, maintaining a clear link to Council priorities.
- Elected members' involvement in the process should be pivotal, with elected member engagement from the commencement of the process. The budget setting process should be member driven with support from Council officers.

99. As part of the new strategic approach, a service prioritisation exercise was proposed with the aim of producing a ranked list of all front line services from a corporate perspective. The Council considers this will ensure that the limited budget available is effectively directed towards priority services.

ASPIRE

100. The Council recognises that the savings required in the coming years present a significant challenge to the continuing delivery of services. As part of the new approach to

planning and delivery, and building on the Service and People First Programme, the Council has established ASPIRE.

Articulate	• open, honest and clear at all times
Sensitive	• to people's needs and understand that one size doesn't fit all
Proactive	• in delivering for our communities
Inspiring	• in our ambitions
Realistic	• in our expectations
Evaluate	• to be sure we have made a difference.

101. ASPIRE communicates the guiding principles in the Council's planning and delivery of services going forward. The ASPIRE principles are designed to reflect that everyone within the Council has responsibility to adapt to new models of service delivery, legislation, expectations and financial pressures. Following the Chief Executive's report to Policy and Resources Committee in December 2015, one of the Council's immediate priorities was to *develop and embed an ASPIRE philosophy* and work began in 2015/16 in terms of employee testing the philosophy.

Workforce planning

Workforce changes in 2016/17

- 102.** The revenue savings required by the Council were approved by the Policy and Resources Committee in February 2016. That report identified 287 full time equivalent (FTE) posts for deletion, of which 177 were vacant at that time. In addition, a small number of further post adjustments from the budget setting process resulted in the deletion of 297.61 FTE posts.
- 103.** Following the approval of the revenue savings in February 2016 further work was carried out to assess the impact of the required workforce savings on the Council's individual services. In May 2016 the Policy and Resources Committee approved the resulting financial savings and one off costs for each service based on the former Council structure, as presented in the following table. (NB: workforce implications for Social Care Services were referred to the IJB).

Service	Savings £million	One-off cost £million	FTE deleted
Chief Executive's	0.092	0.029	2
Corporate	0.891	0.167	20
Finance & Customer Services	0.672	0.95	24.5
Regeneration & Environmental	2.784	1.47	73.05
Leisure & Learning	4.236	2.425	178.06
Total	8.675	5.041	297.61

104. The Council reports that the changes to the staffing structure required during 2016/17 will be progressed in line with the established policies in relation to voluntary severance.

Scotland's public sector workforce

- 105.** In November 2013, the Accounts Commission and Auditor General for Scotland published *Scotland's public sector workforce*. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.
- 106.** The Council presented a report to its Audit and Governance Panel on Audit Scotland's national report in January 2014. This report considered the recommendations raised within the Audit Scotland report and how the Council had addressed these. The Council's Head of Audit and Inspection expressed a view that the Audit and Governance Panel could take reasonable assurance that the issues raised in the report were being appropriately responded to.
- 107.** As part of our 2015/16 audit, Audit Scotland asked us to undertake a follow up review to help understand the extent to which public bodies are implementing the recommendations and help identify common and emerging issues. A summary of our findings are highlighted below:

Exhibit 5: Summary of findings from targeted follow up

Theme	Audit findings
Planning	<ul style="list-style-type: none"> North Lanarkshire Council does not have an organisation wide workforce plan. However, the Council considers the principals of a workforce plan are embedded within its service plans, financial plans and human resources strategy. Succession planning is undertaken for the medium term and is a priority within the Council's HR strategy. This priority also feeds into the Council's Learning and Development Strategy (2014-18). The outcomes against the strategy are published on the Council's intranet (Connect) bi-annually. The Chief Executive presented a report to committee on 'Future Priorities of the Council and Delivery Model' (December 2015). This report outlined a new corporate management team structure. The savings options for 2016/17 were agreed by Council in February 2016. These savings forecasted a reduction in 297 full time equivalent posts.
Service Planning	<ul style="list-style-type: none"> The Council does not currently adopt service or departmental workforce plans. Future workforce requirements are taken in to account through the service and financial planning processes. The service and financial plans have an agreed and consistent format, approved by the Chief Executive's Office. For the period under review (2015/16), service plans were structured around the four aims of the Service and People First Transformation Programme. The plans provide clear objectives for workforce change and are linked to the Community Plan and Corporate Plan by objective and priorities. The Council's change programme set out clear objectives to achieve the savings and changes to structure required to meet future development of the Council. The Council uses scenario planning to inform service delivery and to inform workforce development. In recent years there has been a particular focus on the impact to services due to the ageing population. The Council has an early retirement scheme in place and established voluntary severance policies. The Council's P&R (Human Resources Early Retirement) sub-committee has delegated authority to determine applications for early retirement and voluntary severance (as set out in the approved Scheme of Administration). The Council has a targeted voluntary redundancy scheme and aims to avoid compulsory redundancies wherever possible.
Challenge and Scrutiny	<ul style="list-style-type: none"> The CMT and the P&R (Human Resources) Committee receive regular reports on workforce plans. These include reports on the Change Management Fund, performance against service plans and financial plans. All Council services have access to the workforce planning toolkit commissioned by the Improvement Service. Service Plan templates are revised annually by the Chief Executive's Office to ensure they remain fit for purpose.
Reporting	<ul style="list-style-type: none"> Monitoring reports on costs and savings from workforce change programmes are reported to the CMT quarterly and the P&R (Human Resources) committee annually. These reports include estimated costs and financial savings for workforce change programmes. The Council carries out an organisation wide staff survey every two years. Questions in the survey include those relating to employee wellbeing.

Health and social care integration

- 108.** The North Lanarkshire Integration Joint Board (IJB) was established as a legal entity on 27 June 2015 by the Public Bodies (Joint Working) (Integration Joint board Establishment) (Scotland) Amendment Order 2015.
- 109.** During the 2015/16 shadow year it was agreed that the IJB would operate with a provisional budget in order to allow all parties to fully understand the various funding elements that will be transferred. From 1 April 2016 the IJB took on formal responsibility for the strategic planning and direction of health and social care services in North Lanarkshire. In order for this to happen, all parties needed to commit and agree to 2016/17 budgets for the IJB and the related directed services.
- 110.** To inform the 2016/17 budget setting process, the Scottish Government issued guidance on the provision of financial assurance for health and social care integration. The guidance stated that the assurance process should enable the IJB and the delegating local authority and health board to identify the resources to be delegated and the risks associated with the integrated functions.
- 111.** One key requirement set out in the Scottish Government on financial assurance was that the respective health board and local authority internal auditors provide a report to their audit committees on the due diligence process. However, planned internal audit work on the due diligence process had to be postponed due to delays in both the Council and health board completing the process.
- 112.** In December 2015 Audit Scotland's national report *Health and social care integration* recommended that integration authorities should work with councils and NHS boards to urgently agree budgets for both for the first year and for the next few years; this included aligning budget setting arrangements between partners.
- 113.** Council and health board officers undertook a significant amount of work during 2015/16 to progress the due diligence process in order to approve the allocation of an integrated budget. Throughout that time, and up until May 2016, regular updates on the process and the management of key financial risks related to integration were presented to the Audit and Governance Panel.
- 114.** The May 2016 update to the Audit and Governance Panel identified that the due diligence process was still ongoing at that time. As a result the internal auditor has not been able to conclude on the Council's arrangements. At the time of our final audit visit Council management had still not concluded on the diligence process undertaken and as a result the internal audit review of this process had not been concluded. The Council should ensure that the due diligence process on the 2016/17 IJB budget is formally finalised in order to allow the internal auditor to conclude upon the process adopted.
- Action plan point 4**
- 115.** Despite the significant amount of work carried out, the initial budget offer for 2016/17 was only formally presented to the IJB on 10 May 2016, after the start of the financial year, and at that time was still subject to change. A high level financial plan was also presented and work was progressing to further develop comprehensive integrated financial plans to fully support the delivery of the strategic plan.
- 116.** As at 10 May 2016, the budget offer from both the Council and health board had changed from that which informed the IJB's strategic plan released in February 2016. The social work contribution was reduced to £158.492million and the health board contribution was increased to £366.579million.
- 117.** The Council's contribution to the IJB incorporated the Council's reduced revenue funding for 2016/17 as a result of the Scottish Government Financial Settlement. The £6.2million reduction in social work budget as a result was to be offset by savings selected from a list of options identified and consulted upon as part of the Council's own savings strategy.
- 118.** The IJB approved the savings plan for social work services at its meeting on 10 May 2016. £5.979million of the savings required were identified from the consultation options provided by the Council. The balance of savings (£0.221million) requires to be identified from the social work budget during the course of the financial year.
- 119.** The Council should continue to work with its integration partners with a view to developing a budget setting framework that will allow budgets to be formally agreed by all parties before the beginning of each financial year. Further work

should also be undertaken to support the development of comprehensive financial plans to fully support the strategic plan, including the consideration of financial planning over the medium and long term.

Action plan point 5

- 120.** The North Lanarkshire Integration Scheme, approved by the Scottish Government in May 2015 outlined the high level governance arrangements for the IJB and the relationship between the IJB, North Lanarkshire Council and NHS Lanarkshire. During 2016 all parties agreed that, further to the original integration scheme, Children and Families Social Work, Criminal Justice Social Work and Forensic Mental Health services should also be delegated to the IJB. This led to an updated integration scheme subsequently being approved by the Scottish Government.
- 121.** Functions were formally delegated to the IJB from 1 April 2016 and the IJB Strategic Plan *safer, healthier independent lives 2016-26* sets out the vision for the delivery of health and social care services across North Lanarkshire for the next ten years. From the Council's perspective this arrangement covers all social work services. Arrangements regarding what is reported to the Council and what is reported to the IJB in relation to Social Work Services have changed since 1 April 2016 and continue to evolve.
- 122.** The Council has recognised that the establishment of the IJB represents a major change not only in the arrangements for the planning and provision of social care services, but also in its own governance and oversight. It also recognises that integration brings a range of practical risks and potentially complex accountability arrangements.
- 123.** Audit Scotland's national report *Health and social care integration* made a range of recommendations for integration authorities, councils and NHS boards. In particular the report recommended that effective scrutiny arrangements needed to be established by all partners to ensure that elected members and NHS non-executives, who are not members of the IJB board, are kept fully informed of the impact of integration.
- 124.** The Council can demonstrate that effort has been made in that regard. The Chief

IJB budget in the Strategic Plan – February 2016	
Social work services	£million
Younger Adults – Learning Disability	38.111
Younger Adults – Physical Disability	8.357
Younger Adults – Mental Health	10.573
Older Adults	76.211
Children & families	21.286
Justice Services	6.708
Assessment and Planning (localities)	18.057
Social Work Out of Hours	4.190
Housing Services	2.325
Other Costs	9.404
Income	(35.296)
Social work total	159.928
Health Services	
Community Health	278.000
Set aside budget	56.000
Health total	334.000
IJB total	493.928
<i>Health and Social Care North Lanarkshire Strategic Plan 2016-2026</i>	

Accountable Officer of the IJB has presented reports on the integration process to the Council's Policy and Resources Committee during the year and minutes from each IJB meeting are presented to the Policy and Resources Committee. However, we consider that further work is required to ensure that elected members are fully informed of the impact of integration and are fully aware of where responsibilities and accountabilities sit. To that end the Council should ensure that its governance arrangements in relation to integrated services are clearly documented and communicated to all councillors.

Action plan point 6

- 125.** Planned internal audit work on the management of implementation risks had to be cancelled during the year due to difficulty in agreeing the scope and timing of the work. As a result an early opportunity to reflect on the integration

process has been missed by the Council.

- 126.** The Council's governance statement reflects that continuing awareness raising, roadshows and communication activity with workforce, service users, patients and other stakeholders will be required to ensure that all stakeholders fully understand the implications of integration. In response, the Council has committed to presenting updates on these matters, alongside regular risk assessment updates, to relevant committees and the Audit and Governance Panel during 2016/17.
- 127.** Given the scale of change brought about by integration the Council should, in addition to the actions outlined in the governance statement, commit to a formal review of its governance arrangements for integrated services after an appropriate bedding in period has passed.

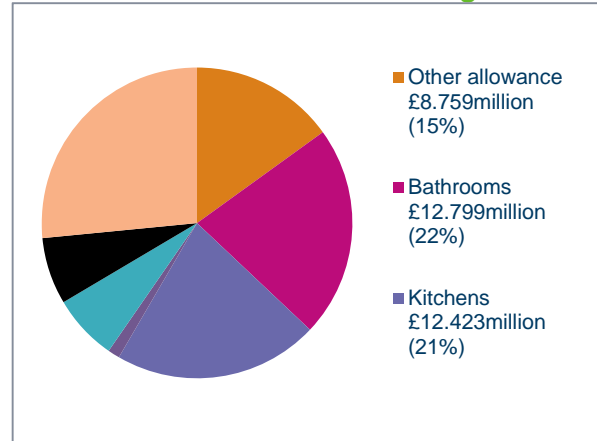
Action plan point 7

Future capital plans

- 128.** The Council's current capital programme has been prepared for the five year period 2013-18, mirroring the period covered by the Council's Corporate Plan and the Community Plan. 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 three components: the continuation of the Schools and Centres 21 initiative; the recently established City Deal; and the composite capital programme. The composite capital programme for 2016/17 totals £27.860million. The 2016/17 programme for Schools and Centres 21 totals £21.038million; and the City Deal capital programme totals £3.583million.
- 129.** 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 2016/17 totals £58.197million and the new build programme for 2016/17 totals £22.192million.
- 130.** A HRA mainstream programme (2016-21) of £202million was approved by the meeting of the Housing and Social Services committee in February 2016. This five year investment programme aims to ensure the full modernisation of kitchens and bathrooms for over 26,000 homes and to maintain Scottish

Housing Quality Standard (SHQS) compliance. A summary of this planned capital expenditure for 2016/17 is shown in exhibit 6 below.

Exhibit 6 – HRA Mainstream Programme



Future capital funding arrangements

- 131.** The Scottish Government announced general capital grant funding for 2016/17 in December 2015. North Lanarkshire Council's general capital grant allocation for 2016/17 is £24.233million. This represents a reduction of 33% (£12.139million) in general capital grant funding from 2015/16.
- 132.** The Council originally estimated in 2013 that it would be allocated general capital grant funding of £26.675million for 2016/17. The actual allocation for 2016/17 is £2.442million less than the original estimate. The Council also anticipates a reduction in capital receipts to fund capital expenditure. The revised estimate for 2016/17 is £1million compared with £3million in capital receipts originally budgeted for spanning both 2016/17 and 2017/18.
- 133.** The Council's budgeted capital expenditure for 2016/17 of £27.860million includes slippage of £8.583million. In the event that this slippage is not incurred, the Council plans to fund this capital expenditure through prudential borrowing.

PPP obligations

- 134.** The Council is party to a public private partnership (PPP) running for a 32 year period for the provision of 17 schools. Upon termination of the partnership in 2037 ownership of these assets, along with responsibility for maintenance and operation,

passes to the Council. The Council pays a 'unitary' charge each year comprising service costs, interest and statutory debt repayment elements.

135. The unitary charge in 2015/16 was £21.377million (comprising £4.917million debt repayment, £9.828million interest costs and £6.633million service costs). Over the remaining life of the contract the Council expects to pay unitary charges totalling £595.634million. We have reviewed the accounting model used in the calculation of the unitary charge and found this to reasonable with increases being in line with inflation each year. This is a significant annual obligation for the Council and is incorporated into long-term financial plans at service and council level.

Hub south west project

136. The Council participates in hub South West to carry out various capital projects within the region. The hub is made up of a number of public sector organisations, the Scottish Futures Trust (SFT) and a consortium of private sector partners. Construction of two schools is currently progressing under the Schools and Centres 21 programme: the Clyde Valley Campus and Greenfaulds High School.
137. The Council approved the Scottish Government's Hub DBFM (Design, Build, Finance and Maintain) Schools project agreement for delivery of the Greenfaulds High School project in November 2014. The agreement was subsequently signed on 8 January 2015 although an amendment has been made to the agreement so that the project can be correctly classified under revised European Accounting Rules which govern public sector revenue projects (ESA10).

New developments

Regeneration of Ravenscraig

138. There has been further delay in the planned regeneration of the Ravenscraig area.
139. In 2005 outline planning permission was granted for the redevelopment of the site of former steelworks at Ravenscraig through a Tax Incremental Financing Scheme (TIF). Provisional approval for the TIF was granted by the Scottish Government in 2011 and in June 2014, the development was included as one of two national developments in the Scottish

Government's National Planning Framework.

140. The development is led by Ravenscraig Ltd, a joint venture company between Wilson Bowden Ltd, Tata Steel and Scottish Enterprise. In June 2015 Ravenscraig Ltd advised the Council that the infrastructure requirements and related costs had significantly increased which, alongside diminishing capital contributions from partners, created concern over the viability of the scheme. In response, a revised high level development appraisal was prepared which differed significantly from the original outline business case.
141. Given the negative effect on the original business case the development was put on hold in November 2015, with further options for progress being explored. The Council reports that any updated proposals for the development will be reviewed in line with current planning consents for the site and the Council's wider regeneration ambitions.

Clyde Valley Shared Services – residual waste

142. The Clyde Valley Residual Waste Project aims to deliver fully compliant long term waste treatment and disposal arrangements for the region to enable the local authorities involved to meet their responsibilities under Scotland's Zero Waste Plan.
143. North Lanarkshire Council is the lead authority on the project (which also involves East Dunbartonshire Council, East Renfrewshire Council, North Ayrshire Council and Renfrewshire Council) and the target operational date for the planned facility is December 2019.
144. During 2015/16, following a competitive dialogue procurement process, the Council appointed Viridor as preferred bidder for the project. Following that a final business case was prepared, with input from external financial advisors, and a key stage review was carried out by Scottish Futures Trust. The Council reports that the final business case demonstrates that the benefits predicted in the outline business case will be achieved and that, following the tender process, the costs of the project are expected to be lower than those initially predicted.
145. In March 2016, the Council appointed Viridor as the contractor, and entered into a Post Contract Inter-Authority Agreement with the four partner

Councils for the treatment of residual waste for a 25 year period, from 1 December 2019. A contract management team will be established by the Council during 2016/17 with the related costs being allocated across the partners. North Lanarkshire Council's contribution for 2016/17 is £0.08million which will be funded from a 'Clyde Valley' earmarked reserve. The balance on the reserve is predicted to be sufficient to fund four years of Council contributions to project, through to 2020/21.

146. Although the planned residual waste treatment facility will be legally owned and operated by Viridor, the Council considers that it should be accounted as a Council asset under a finance lease. At this stage, the estimated capital cost, and associated liability, will be £23million at the start of the contract. The Council reports that the impact of this accounting treatment will not materially impact upon the current approved limits and target levels for borrowing under the Prudential Code for Capital Finance in Local Authorities.

Glasgow City Region City Deal

147. In July 2014 the £1.13 billion 'City Deal' was announced. Under the scheme £500million of capital funding will be contributed by each of the UK and Scottish Governments over 20 years. A further £130million has been committed by local authorities across the region, including £23.596million from North Lanarkshire Council.

148. In total, £172.5million of the City Deal funding relates to projects that will take place within North Lanarkshire:

- Lanarkshire orbital transport corridor (£93.6million);
- Gartcosh / Glenboig community growth area (£66.3million); and
- A8 / M8 corridor access improvements (£12.6million).

149. The Council has established a multi-disciplinary team to oversee the City Deal project. In August 2015 strategic business cases for all three North Lanarkshire city deal projects were approved by the City Deal Cabinet. The Council anticipates that, following the approval of a final business case, works on the Gartcosh Business Park to Glenboig Link Road project will commence in December 2016. In total, the

Council estimates it will spend up to £3.9million on City Deal infrastructure projects in 2016/17.

150. During 2015/16 the City Deal Cabinet rebranded the "Glasgow and the Clyde Valley City Deal" to "Glasgow City Region City Deal". Eight region-wide portfolios have now been identified, with each allocated to a Council participating in the scheme. Additionally, a new 2016 to 2030 Glasgow City Region economy strategy has been commissioned which is anticipated to be finalised in late 2016.

City Deal Portfolio	Lead Council
Transport & Connectivity	North Lanarkshire
Enterprise & Economic Growth	Renfrewshire
Inward Investment	Glasgow City
Infrastructure & Assets	East Renfrewshire
Skills & Employment	South Lanarkshire
Housing & Equalities	West Dunbartonshire
Land Use & Sustainability	East Dunbartonshire
Tourism & Marketing	Inverclyde

151. North Lanarkshire Council's Chief Executive will chair the Transport and Connectivity group and the Council Leader has responsibility for the Transport and Connectivity Portfolio. Chief Executives from across the region will support the Leader to prepare a portfolio work plan. A supporting group with membership from all the regional councils will be established and in turn North Lanarkshire Council CMT members have been allocated to corresponding groups across each portfolio area.

5

Governance and transparency

Governance and transparency

152. 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

153. 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 although a number of weaknesses have been identified and are included within this report.

Changes in Leadership

154. The Leader of the Council stood down at the end of February 2016. Councillor Logue was elected Council Leader with Councillor Kelly as his deputy. Councillor McVey is the Majority Group Business Manager. There has also been a range of changes to Conveners and Vice-Conveners and a number of new committees or Panels or changes to remits.

Senior management arrangements

155. Following the appointment of the new Chief Executive in October 2015, structural changes were implemented within the Council. While the new Chief Executive was confident that the

Council's Corporate Plan, Community Plan and the SOA provided a clear indication of the priority outcomes for North Lanarkshire, he considered the Council's management arrangements, resource allocations, performance management and governance arrangements needed to be redesigned to ensure those priorities could be delivered.

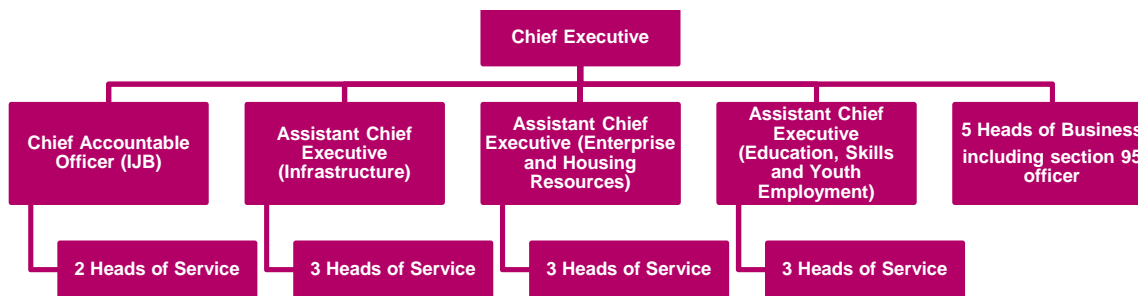
156. The first step outlined by the new Chief Executive was the restructure of the Council's management arrangements and reconfiguration of services in line with the Council's priority outcomes. Through the restructure, five Executive Director posts were replaced with three Assistant Chief Executive posts (Exhibit 7).

157. Under the new structure the number of officers paid at director equivalent level has reduced from five to three and, the total number of Chief Officers has reduced from 26 to 21.

158. In respect of the previous five Executive Directors; the Executive Director of Regeneration and Environmental Services was appointed Chief Executive in October 2015, the Executive Director of Learning and Leisure Services resigned in February 2016, the Head of Environment and Estates (who deputised for Regeneration and Environmental Services during the restructure transition period), the Executive Director of Finance and Customer Services, Executive Director of Corporate Services and Executive Director of Housing and Social Work Services left between March and May 2016 with compensation for loss of office totalling £947,079.

159. The appointments to the Assistant Chief Executive posts were completed in 2016, with the final appointment to Assistant Chief Executive (Infrastructure) taking up post in August 2016.

Exhibit 7: New management arrangements



160. During the restructure transition period, the corporate management team (CMT) comprised all heads of service. At that time the heads of service directly reported to the Chief Executive (equating to 17 individuals). Since August 2016, a core corporate management team has been established which comprises the Chief Executive, three Assistant Chief Executives and the Chief Accountable Officer of the IJB. A review of the reporting lines is due to commence now that all the Assistant Chief Executives are in post.

161. We note that the Section 95 officer does not attend the core CMT meetings. The Section 95 officer does however attend the wider CMT meetings; with all heads of service present. At present there are no terms of reference for either of these meetings and therefore it is not possible to conclude whether the Section 95 officer should be present at the core CMT.

162. CIPFA's publication 'The role of the Chief Financial Officer' (April 2016) describes the role and responsibility of a chief financial officer in a public service organisation (Exhibit 8). We would encourage the Council to develop terms of reference for the CMT meetings and consider whether the Section 95 officer has a role to play in the core CMT to enable him to fulfil his responsibilities as the Chief Financial Officer for the Council.

Action plan point 8

Exhibit 8: CIPFA Statement on the role of the chief financial officer (CFO) in public service organisations

The CFO in a public service organisation:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

Audit and Governance Panel

163. On 8 March following the resignation of the then leader of the Council a decision was made to make a number of changes to the conveners and members of Council committees and panels. The Council took the opportunity to change the convener of the Audit and Governance Panel from a member of the political administration to a councillor outside this administration. We welcome this development which is in line with previous external audit recommendations and Audit Scotland and the Accounts Commission's view that that the chair of local authority audit

committees should be independent of the administration.

- 164.** In August 2015 the Audit and Governance Panel self-assessed itself against the good practice laid out in CIPFA's *Audit Committees: Practical Guidance for Local Authorities and Police*. The self-assessment exercise concluded that overall the Panel could demonstrate a high level of compliance with expected good practice and was largely effective in discharging its role and responsibilities. The self-assessment did identify a number of areas for improvement including:
- The Panel's terms of reference required to be more closely aligned to CIPFA's best practice. This has subsequently been done;
 - Panel members training needs and requirements needed to be identified. A training session was subsequently held on 16 May 2016 at which internal audit and ourselves as external auditors delivered sessions on key areas e.g. understanding financial statements;
 - The need for a greater focus on risk management – this will in future be a standing agenda item for the Panel;
 - The need to make better use of assurances from non-audit sources – six monthly reports will be in future submitted to the Panel on assurances from the work of other committees; and
 - The Panel to be involved in periodic reviews of major projects – this area is still being considered.

- 165.** We concur with the conclusions of the self-assessment and the areas identified for improvement.

Delivering good governance in local government

- 166.** During the year, the Council undertook a self-assessment exercise against the Good Governance Principles. Responses were received against each of the principles and submitted to the Audit and Governance Panel in August 2016. This report did not however report on the outcomes of the exercise or include a detailed action plan.
- 167.** In Autumn 2016 new guidance notes are due to be published by CIPFA and SOLACE in relation

to the previously published "*Delivering Good Governance in Local Government Framework*". Once this is made available the outcomes from the Council's self-assessment exercise are to be refreshed and detailed findings reported to the Audit and Governance Panel.

Following the Public Pound

- 168.** The Council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf. While the ALEO is responsible for the delivery of the services, the Council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides. The Council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.
- 169.** In 2014/15 we followed up on the recommendations made in our 2013/14 targeted follow up report on ALEOs. Of the ten recommendations made we found six to be completed and the remaining four to be partially complete. All four of these recommendations were reliant on services demonstrating compliance with corporate guidance approved by the Policy and Resources Committee in June 2015. This guidance contains formal procedures that should be adopted by services in the development and management of ALEOs.
- 170.** Whilst the Policy and Resources report in respect of the corporate guidance did include a requirement for services to demonstrate effective implementation during 2015/16, this has been delayed until 2016/17 due to the prioritisation of the 2016/17 budget. As a result the four recommendations made within our 2013/14 review remain partially outstanding. These are dependent on services demonstrating compliance with the corporate 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; and
 - Establishment of risk management arrangements.
- 171.** Within a report to the Policy and Resources Committee in December 2015 ('*Future priorities of the Council and delivery model*'), the Chief

Executive recognised that the Council needs to maximise the benefits received from the operation of its ALEOs. In order to support this objective, a partnership unit led by the Strategic Advisor for External Organisations now has responsibility for consolidating performance management for all significant ALEOs. In addition to this, a newly formed ALEOs and External Bodies Monitoring Committee met for the first time in May 2016. This Committee is responsible for:

- Monitoring ALEO's financial, service and operational performance including risk management;
- Ensuring effective governance arrangements are in place including contractual performance and compliance;
- Examining the ALEO's strategies, policies and future plans;
- Periodically reviewing ALEOs to ensure they remain the best option for service delivery; and
- Reviewing decision making structures within ALEOs including actions and judgments of the Board of Directors.

172. Meetings with individual services to examine their arrangements for implementing the corporate guidance on ALEOs took place during February and March 2016. A report detailing the findings from these meetings was submitted to the Chief Executive and Strategic Advisor to help inform and shape the Terms of Reference and emerging workplan for the new Committee.

Fraud and irregularity

173. 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

174. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies.

175. The most recent NFI exercise commenced in October 2014. As part of our 2015/16 audit we have monitored the Council's participation in NFI. We submitted an assessment of the Council's participation in the exercise to Audit Scotland in February 2016. Overall we concluded that the Council's arrangements for the 2014/15 exercise were satisfactory. We did however note the following:

- The Council is no longer responsible for investigating fraud in relation to Housing Benefit (HB) matches. The Council's adjudication and appeals team is responsible for reporting any suspicious cases/NFI matches to the Single Fraud Investigation Service (SFIS). This change in responsibilities appears to have had a negative impact on the outcomes arising from the NFI exercise to date (February 2016). The Council has reported a lack of communication in relation to the matches referred to SFIS. This has meant the Council has not been able to conclude on a number of matches which were deemed to present a risk of fraud or error.

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

176. 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.

Correspondence received by Audit Scotland

Procurement arrangements

177. In March 2016 an anonymous letter was sent alleging serious irregularities and corruption in certain aspects of the Council's procurement processes. The letter was also sent to the Herald newspaper and Alex Neil MSP. Following discussion with the Chief Executive the internal audit team were instructed to carry out an investigation into the allegations. At the same time Police Scotland were notified of the allegations.

178. Internal audit have been investigating these allegations and have been liaising with Police Scotland throughout the process. We have also received regular updates and briefings of progress being made in relation to the work being undertaken. There is a possibility of future criminal and/or disciplinary processes and given investigations remain ongoing, the following comments remain provisional until these have been completed.

179. The allegations relate primarily to the use of certain measured term contracts associated with the Council's property portfolio. A number of these measured term contracts were let on the basis of contracts for a three year period with an optional extension period of two years. There is no evidence to suggest that any expenditure has been incurred for work not carried out and internal audit's interim findings are that all expenditure has been incurred in accordance with contracts entered into by the Council. However the level of contract expenditure incurred under these contracts is significantly in excess of that which was originally anticipated within the original procurement documentation as set out below:

Measured Term Contract (MTC)	Total contract value including contract extension period	Housing Services Management System spend - contract period plus extension
MTC A	£1,500,000	£9,387,271
MTC B	£1,250,000	£6,042,789
MTC C	£1,250,000	£7,101,743

There are a number of additional MTCs with smaller total spend values but similarly proportionately greater spend against forecast values.

180. Internal audit's interim work to date has identified a number of key issues arising including:

- Weaknesses in the management arrangements surrounding the design, use and oversight of such contracts;
- Questions over whether these measured term contracts delivered best value for the Council;

- Concerns that the Council has breached EU procurement regulations; and
- Whether staff associated with the operation and oversight of such contracts conducted themselves in accordance with the Councils' expectations.

181. A number of these areas are referred to within the Council's 2015/16 Annual Governance Statement. Internal audit intend to report to the Chief Executive on their provisional findings shortly with the intention of bringing a formal report to the Audit and Governance Panel in November 2016.

Scottish Welfare Fund

182. During 2015/16, Audit Scotland received an anonymous letter raising concerns regarding the use of Housing Services and the Scottish Welfare Fund funds to procure products and services from North Lanarkshire Industries (NLI)².

183. These products and services included sofas, soft furnishings, beds, bedding, removal and storage, homecare uniforms and fire protection maintenance. The letter highlighted the higher prices paid for these products and services in comparison to the same items on the Scotland Excel framework.

184. On investigation we noted that reports to the Policy and Resources Committee and to Housing and Social Work Services Committee in 2014 had established the principle of using NLI as an alternative to the use of Scotland Excel. We also note that a report to the NLI member / officer group noted that there was no contractual impediment to placing orders with NLI rather than alternative suppliers and highlighted that there had been some quality issues in relation to Scotland Excel suppliers. It also made the point that value for money is not only defined as the most cost effective option but takes into account quality and wider benefits to society.

185. Whilst the Council has taken a legitimate policy decision to purchase products and services from NLI, in our view the reports supporting this decision did not clearly set out the financial cost of this decision and the value of the subsidy being provided to NLI by not using the lowest cost provider. Local authorities must obtain the

² NLI is a supported employment facility.

best value for money and provide support to the maximum number of applicants. It is therefore important that this is clearly demonstrated in any decision taken on the supplier and products purchased. We recommended in our 2015/16 interim management report that for future decisions taken in relation to NLI the full benefits and costs are clearly outlined. In addition on an annual basis the value of purchases through NLI should be highlighted as should the value of any annual subsidy involved in using NLI products and services.

186. The importance of reports being prepared for elected members consideration, always containing all key information necessary to support informed decision-making is referred to in paragraph 195.

Arms Length External Organisation (ALEO) and Register of Interests

187. During 2015/16, Audit Scotland also received an anonymous letter raising concerns regarding payments made by Time Capsule Monklands Trust Limited (a company which merged with the Council's arms length leisure trust in 2011) to a company owned by one of the Trust's non executive directors. The payments related to services undertaken in relation to capital works at the Time Capsule. The issues raised in the letter were investigated by internal audit in 2011 following a request from the Trust's company secretary and head of legal services. The report highlighted a number of significant weaknesses in the corporate governance and procurement arrangements within the Trust. These included:

- Failure to comply fully with OSCR guidelines and disclosure requirements;
- A lack of clarity regarding the work undertaken by the non-executive director, its authorisation by the Trust's Board and the basis of payment; and
- A lack of clarity around how the Trust could demonstrate value for money in these transactions.

188. The internal audit report was considered by the Time Capsule Monklands Board and Council management in 2011. Whilst the Time Capsule Monklands Trust Limited no longer exists, the Council should obtain assurance that the weaknesses identified in the arrangements in 2011 have now been addressed.

Action plan point 9

189. The anonymous letter also raised concerns about the leader of the Council's involvement with another subsidiary of the arms length leisure trust; ECSA UK Limited. The Company was formed by North Lanarkshire Leisure Ltd (NLL) on 13 April 2011 and its sole member was NLL. At the time it had two directors and on 13 December 2011 the leader of the Council also became a member. ECSA UK Limited was formally dissolved in July 2016. During the period to its dissolution the accounts of ECSA UK Limited have been independently audited.

190. The creation of this company does not appear to have been considered by a Council committee. Whilst the company has been dissolved we recommend that in future the incorporation of any company by the Council or one of its arms length external organisations is subject to approval by the relevant council committee.

Action plan point 10

191. We also note that the leader of the Council did not include his involvement with ECSA UK Limited on his register of interests although his involvement with North Lanarkshire Leisure (the parent trust) was disclosed. Elected members are responsible for providing up to date information in respect of the register of interests.

192. Our 2014/15 audit identified that a number of entries were found to be missing from councillor register of interests in relation to group companies. Officers responded that letters reminding elected members of their obligations and enclosing a copy of their entry on the Register were sent to them annually. In addition, in 2014/15 two members training sessions took place which included reference to this obligation. Notwithstanding this and given the renewed focus on the Council's involvement with ALEO's, officers should remind elected members of the need to ensure that they comply with the Councillors Code of Conduct in respect of any roles that they have in relation to ALEOs and that any questions relating to the Code should be directed, in the first instance, to the Council's Monitoring Officer.

Action plan point 11

Supporting effective decision-making

193. During our audit appointment we have noted that on occasions the reporting of issues to Council Committees has lacked clarity both in the detail provided to elected members and in the recommendations and decisions officers are seeking to obtain. For example in our 2014/15 Annual Report on the Audit we commented on the decision to vary the housing and non-housing contract with Mears plc. Whilst we concluded that the decision to amend the contract was consistent with the Council's Standing Orders and internal governance arrangements, we noted that reports to elected members on this subject failed to include adequate detailed financial analysis or a proper appraisal of all the relevant options available.
194. As stated in paragraph 186, this report also includes an example of where reporting to elected members was inadequate and failed to properly set out the full financial impact of a decision before asking for that decision to be made.
195. It is essential that reports to Committees are clear, comprehensive and fully set out the options, costs and benefits of a decision prior to officers asking elected members to make a decision. We recommend that the Chief Executive reminds all staff with responsibility for preparing reports for committee of the need to ensure that reports contain all key information required to support properly informed decision-making by elected members. Consideration should also be given to preparing a checklist and/or other guidance to assist officers preparing reports.

Action plan point 12

Risk management

196. 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.
197. Following the appointment of a Corporate Risk Officer (CRO) in September 2015 and through the regular meetings of the Corporate Risk Management Working Group (CRMWG) the Council has established a detailed plan for the development, implementation and embedding of risk management across the Council. Plans aim to establish consistent risk management

arrangements across the Council's services as well as embedding risk management in decision making and project management. Plans also seek to better align risk management arrangements with risk management arrangements in the Council's ALEOs and partner bodies.

198. Due to ongoing restructuring and organisational change delays against proposed timescales have occurred. The CRMWG and risk officers have sought to prioritise areas of the plan which have been less affected by the restructure. This includes risk management arrangements for the Council's IJB, risk arrangements for ALEOs and training of operational risk champions. However, although progress has been made in some areas, arrangements for risk management at a corporate and service level remained inconsistent and not fit for purpose throughout 2015/16. This includes a failure to report key risks and how these are being managed to the Audit and Governance Panel throughout the year.
199. Since the 2015/16 year-end notable progress has been made. It is envisaged that the updated Corporate Risk Register and the Council's Risk Management Strategy will be in place by November 2016. The Council is also carrying out a procurement exercise for an electronic risk management system. This is aimed at embedding a consistent approach across all service areas.
200. The Audit and Governance Panel has a key role to play in the Council's governance arrangements with responsibility for oversight of the adequacy and effectiveness of the Council's risk management arrangements. As these arrangements are progressed, we would expect the Audit and Governance Panel to establish appropriate arrangements to ensure that it is able to fulfil its responsibilities in this area.

Action plan point 13

5

Value for money

Value for money

201. 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 reporting of its performance.

Business planning arrangements

202. The Council is currently carrying out an overhaul of its planning and performance arrangements; with a move towards a more streamlined system of planning that allows the Council to have a clearer oversight of performance and its progress in delivering against each of its five priority outcomes.

203. The Council's service plans have historically been prepared on an annual basis across all services which cover the contribution each service makes to the Council's corporate objectives, supported with a set of performance indicators and targets. The intention is to move towards business plans for each of the five priority outcomes, each populated with a set of performance indicators and targets that focus on outcome and impact rather than service management. Draft business plans are to be approved at a meeting of the Policy and Resources Committee in Autumn 2016.

204. In recognition of a period of transition to the new business plans, a paper was presented to

the Policy and Resources Committee in June 2016 which set out interim performance indicators and targets for 2016/17.

Real time performance review

205. Since February 2015, the Council's Scrutiny Panel's challenge and scrutiny process has been undertaken through real time performance reviews using PerformNL, the Council's performance management software. The real time performance review comprises the following:

- An overview of the service
- An overlay of performance information
- A real time review of the latest performance results
- Alignment with the Council's 5 priorities
- Agreement of recommendations

206. Performance is presented to the Scrutiny Panel using three dimensions – financial perspective, customer perspective and quality perspective. Members are provided with guidance how to analyse the information to be able to identify areas for improvement. The analysis includes target comparisons, trend comparisons and national comparisons (where appropriate).

207. The Scrutiny Panel has undertaken four real time performance reviews in 2015/16 as shown in exhibit 9 below.

Exhibit 9 – Real time performance reviews during 2015/16



Self-assessment activity by the Council

208. The Council adopted the Public Service Improvement Framework (PSIF) in 2008 and since then has carried out a series of service level self-assessments. The Council's performance management framework comprises of strategic and operational activities. Strategic activities included

community plan (SOA) and national targets; corporate plans; and themed partnership group actions. Operational activities included self-assessment and service plans (including financial and non-financial performance information).

209. The Council's approach 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 10).

Exhibit 10 – Key themes within the PSIF



210. Where appropriate, self-assessments incorporate aspects of the best value 2 corporate assessment framework and Audit Scotland’s best value toolkits.

Statutory performance indicators

211. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2014 Direction, which applied to 2015/16, 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 2014/15, 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)).

212. Our role as auditors in 2015/16 was to assess and comment upon the Council’s arrangements for collecting, recording and publishing performance information. We have held discussions with management and examined relevant committee reports in order to assess the arrangements in place. Guidance on collection along with specified timeframes is issued to all individuals responsible for performance reporting. The guidance document contains a process map including all steps in the collection and submission process and an outline of all data verification responsibilities. Performance reports are submitted to all service committees on a

quarterly basis highlighting to members where a particular indicator is significantly above or below target. During 2015/16 the Council has continued to develop the performance section of its website making it more user-friendly and easier to navigate. The website will be populated with 2015/16 performance data in October 2016.

213. We are pleased to report that we found the Council’s procedures to be appropriate and well adhered to by responsible individuals.

214. In the context of the increasing maturity of the LGBF and the Commission’s future approach to the audit of Best Value (with a focus on continuous improvement and outcomes) changes are to be made to both the requirements placed on councils and auditors in relation to Public Performance Reporting (PPR) arrangements. These changes are to be reflected in the 2015 Direction and applied to 2016/17 PPR. The main changes are as follows:

- The 2015 Direction will cover a three year period;
- Recognition will be given to the evolving maturity of the LGBF and the Commission’s continued support for its development;
- The assessment of the council’s approach to PPR will be incorporated into the new approach to auditing Best Value rather than carrying out a separate annual assessment of this aspect of Council performance; and

- There will only be 2 SPI requirements; one covering PPR expectations and the other covering LGBF requirements.

Audit Scotland's national performance reports

215. Each year Audit Scotland produces a number of national performance audit reports. In 2015/16 the following relevant reports were published:

Exhibit 11 - Audit Scotland national performance reports issued in 2015/16



216. 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, highlighting key issues, and where appropriate management assessment and planned actions against the report's findings.
217. Audit Scotland's national report 'Community planning: an update' was considered by the Audit and Governance Panel in May 2016. The Panel requested a further report be submitted to a future meeting of the Panel outlining the adequacy and effectiveness of the Council's Community Planning arrangements and how the issues highlighted in Audit Scotland's report were being progressed.
218. There is no formalised process for updating the Panel on the progress made by management in implementing actions previously committed in response to Audit Scotland's national reports. We recommend the Panel receives regular updates on progress made against planned actions.

Action plan point 14

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 Head of Business for Financial Solutions has been designated as that officer within North Lanarkshire Council.

The Head of Business for Financial Solutions 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 Head of Business for Financial Solutions 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 Head of Business for Financial Solutions 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 2015/16 Code of the state of the affairs of the Council and its group as at 31 March 2016 and of the income and expenditure of the Council and its group 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 2015/16 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 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	Management Commentary	<p>The Council has well established arrangements for public performance reporting of key non-financial performance information and substantively meets the requirements of the LGFC. With regards risk, the Council is in the process of refreshing its risk management strategy and arrangements regarding corporate risk reporting. We will review the content of our Management Commentary and any changes, deemed appropriate, will be addressed during the finalisation of the commentary to be included in the 2017/18 accounts.</p> <p>Responsible Officer: Head of Business for Financial Solutions</p> <p>Completion Date: June 2017</p>
Rating	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).	
Green	From our review it is evident that the Council has continued to develop its management commentary. There are however, in our opinion, areas which could still be expanded on. In particular:	
Paragraph ref	<p>35</p> <ul style="list-style-type: none"> • 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	Issue & Recommendation	Management Comments
2	Property, plant and equipment	<p>We are pleased to note that only a small number of issues were identified during the audit process and that these were not considered material. These findings are consistent with our understanding that this is an area where the Council's arrangements are generally satisfactory. Notwithstanding this, we will remind all staff involved in matters relating to PPE accounting of the detailed requirements relating to impairment and depreciation and of the importance of ensuring that that these are consistently applied during the finalisation of the 2017/18 accounts.</p> <p>Responsible Officer: Head of Business for Financial Solutions</p> <p>Completion Date: February 2017</p>
Rating	We identified a couple of issues relating to the accounting treatment on property, plant and equipment. While these matters were not material to the 2015/16 annual accounts, the Council should include procedures within the accounts preparation process to ensure depreciation and impairments are appropriately accounted for.	
Green		
Paragraph ref	45	

Action plan point	Issue & Recommendation	Management Comments
3	Highways Network Assets	
Rating	As part of our 2015/16 audit we have considered the Council's progress in preparation for the implementation of the new requirements in respect of accounting for Highways Network Assets. From our review we recommend the following:	The Council currently contribute officer time with a co-opted member to LASAAC and contribution to the LASAAC Working Group considering CIPFA guidance on HNA and implementation issues across Scotland. The Council will continue to contribute to this forum and ensure that the Council's implementation arrangements are consistent with relevant guidance.
Amber	<ul style="list-style-type: none"> • Further consideration is given to using a methodology based on polygons. • The Council continues to use its professional networks to establish when reliable costing information is available. • The Section 95 officer should look for assurances nationally and from roads and transportation colleagues that: <ul style="list-style-type: none"> • The register of HNA items including lengths, widths and condition is materially correct; • The methodology used to arrive at these figures is appropriate for local circumstances and that it will provide a materially accurate figure for the annual accounts; • The model, central rates and individual regional factors used in the calculation of HNA values have been sufficiently verified in line with the CIPFA Code requirements. • Internal audit should be asked to review the figures and assumptions used to provide independent assurance as to their accuracy. 	We are mindful of the need for the valuation included in the accounts to provide a true and fair view and will continue to work with CIPFA, LASAAC and External Audit throughout the year to ensure that the methodology adopted provides a valuation that is robust and materially accurate.
Paragraph ref		Responsible Officer: Head of Business for Financial Solutions
57 - 59		Completion Date: June 2017

Action plan point	Issue & Recommendation	Management Comments
4	Health and social care integration	<p>The due diligence process has been protracted due to a number of issues affecting both NHS Lanarkshire and the Council. Management will now seek to ensure that the due diligence process is completed and formally reported (including the results of Internal Audit's formal review of compliance with IRAG guidance) as soon as possible.</p> <p>Responsible Officers: Head of Business for Financial Solutions and Head of Audit and Inspection</p> <p>Completion Date: October 2016</p>
Rating	Planned internal audit work on the due diligence process had to be postponed due to delays in completing the process by both the Council and health board.	
Red	The Council should ensure that the due diligence work on the 2016/17 IJB budget is formally finalised in order to allow the internal auditor to conclude upon the process adopted.	
Paragraph ref		
114		

Action plan point	Issue & Recommendation	Management Comments
5	Health and social care integration	<p>The Council recognises the desirability of providing the Joint Integration Board with greater clarity over future funding in order to enable more effective decision-making, particularly around strategic commissioning. However, this needs to be viewed alongside the development of the Council's own approach to future budget-setting which is currently under review as part of the service prioritisation exercise and the limitations placed upon the Council by the lack of visibility given about future funding by the Scottish Government and the timing each year of Scottish Government announcements. We will continue to work with partners to address the issues raised by the external auditor.</p> <p>Responsible Officers: Head of Business for Financial Solutions</p> <p>Completion Date: March 2017</p>
Rating	The initial budget offer for 2016/17 was only formally presented to the IJB on 10 May 2016, after the start of the financial year, and that time was still subject to change. A high level financial plan was also presented.	
Red	The Council should continue to work with its integration partners with a view to developing a budget setting framework that will allow budgets to be formally agreed by all parties before the beginning of each financial year.	
Paragraph ref	Further work should be undertaken to support the development of comprehensive financial plans to fully support the strategic plan, including the consideration of financial planning over the medium and long term.	
119		

Action plan point	Issue & Recommendation	Management Comments
6	Health and social care integration	<p>The Audit and Governance Panel has already requested that such a report setting out the Council's responsibilities and governance arrangements in respect of integrated services post 1-April 2016 be prepared by the Council Chief Executive and/or the JIB Chief Accountable Officer and presented to the November 2016 meeting of the Panel. When prepared, the report will also be brought to the attention of all Councillors.</p> <p>Responsible Officers: JIB Chief Accountable Officer</p> <p>Completion Date: November 2016</p>
Rating	Further work is required to ensure that councillors are fully informed of the impact of integration and are fully aware of where responsibilities and accountabilities in relation to integrated services sit.	
Amber		
Paragraph ref	The Council should ensure that its governance arrangements in relation to integrated services are clearly documented and communicated to all councillors.	
124		

Action plan point	Issue & Recommendation	Management Comments
7	Health and social care integration	<p>The governance arrangements for the Integration Joint Board are set out in the Integration Scheme as approved by Scottish Ministers. The Council's own governance arrangements will be reviewed as part of the overall review of governance in advance of the local government election next May and this process has already been initiated.</p> <p>Responsible Officer: Chief Executive</p> <p>Completion Date: June 2017</p>
Rating	Planned internal audit work on the management of implementation risks had to be cancelled during the year due to difficulty in agreeing the scope and timing of the work. As a result an early opportunity to reflect on the integration process has been missed by the Council.	
Amber		
Paragraph ref	Given the scale of change brought about by integration the Council should commit to a formal review of its governance arrangements for integrated services after an appropriate bedding in period has passed.	
127		

Action plan point	Issue & Recommendation	Management Comments
8	Role of Chief Financial Officer	<p>Although there are currently no formal written terms of reference for core CMT or wider CMT meetings, it is considered that this is not an omission which impacts on the effectiveness of the s95 officer role given that all those involved have a good understanding of the role of the s95 officer in relation to the Council's finances. However, it is recognised that it would be desirable to ensure that this understanding is formally recorded and a protocol will be developed which clarifies the role of the section 95 officer particularly in relation to ensuring that he is appropriately involved in all discussions and/or decisions which have the potential to impact on the Council's finances.</p> <p>Responsible Officer: Chief Executive Completion Date: December 2016</p>
Rating	At present the section 95 officer attends the wider CMT meetings rather than the core CMT. There are no terms of reference for either of these meetings.	
Amber	We would encourage the Council to develop terms of reference for the CMT meetings and consider whether the section 95 officer has a role to play in the core CMT to enable him to fulfil his responsibilities at the Chief Financial Officer for the Council.	
Paragraph ref		
162		

Action plan point	Issue & Recommendation	Management Comments
9	Arms Length External Organisation	<p>The Council's arrangements in respect of the issues raised and general arrangements for reviewing ALEOs have developed considerably since the events highlighted which occurred in 2011. Recent developments in particular (including the creation of a senior post responsible for developing the Council's oversight of ALEOs and the establishment of a specific Committee with responsibilities for review and oversight of the Council's ALEOs) have strengthened the Council's arrangements. Further work is planned to refine the monitoring of ALEOs operational performance along with more strategic-level reviews of individual ALEOs in line with an approved review programme.</p> <p>Responsible Officers: Strategic Adviser (External Bodies) Completion Date: March 2017</p>
Rating	The Council should obtain assurance that the weaknesses identified by internal audit in their report on the Time Capsule Monklands Trust Limited in relation to payments made to one of the non-executive directors have now been addressed.	
Amber		
Paragraph ref		
188		

Action plan point	Issue & Recommendation	Management Comments
10	Approval of Council ALEO's We noted that a subsidiary company of one of the Council ALEO's had been incorporated without being considered by a Council committee. Whilst the company has subsequently been dissolved we recommend that in future the incorporation of any company by the Council or one of its arms length external organisations is subject to approval by the relevant council committee.	Officers in ALEOs with a responsibility for governance will be reminded of the importance of ensuring that the Council is notified of any proposals which require the approval of the Council. Responsible Officers: Strategic Adviser (External Bodies) Completion Date: October 2017
Rating		
Amber		
Paragraph ref		
190		

Action plan point	Issue & Recommendation	Management Comments
11	Register of interests A number of entries were found to be missing from councillor register of interests in relation to group companies. Given the renewed focus on the Council's involvement with ALEO's, officers should remind elected members of the need to ensure that they comply with the Councillors Code of Conduct in respect of any roles that they have in relation to ALEOs and that any questions relating to the Code should be directed, in the first instance, to the Council's Monitoring Officer.	The Council will continue to periodically remind members of the need to ensure that they comply with the Councillors Code of Conduct in respect of registering interests. As regards the issue of whether declarations require to include declarations in respect of subsidiary companies where the parent company interest is already declared, the Monitoring Officer will ensure that the issues raised by Scott Moncrieff are incorporated within the Council's submission to the Standards Commission on suggested improvements to the Code. Responsible Officers: Head of Business for legal and democratic Solutions as Monitoring Officer Completion Date: Reminder to elected members – October 2016; Submission of issues raised to Standards Commission – March 2017
Rating		
Amber		
Paragraph ref		
192		

Action plan point	Issue & Recommendation	Management Comments
12	Supporting effective decision-making	<p>Council staff will be reminded of the key requirements and principles which must be addressed when officers are submitting reports to Committee, although it should also be noted that elected members have a responsibility to consider whether reports contain sufficient information to enable them to make a decision on recommendations.</p> <p>Responsible Officers: Chief Executive and Head of Business for legal and Democratic Solutions</p> <p>Completion Date: December 2016</p>
Rating	We recommend that the Council reminds all those preparing reports for Committee of the need to ensure that reports always contain sufficient information to enable elected members to make properly informed decisions.	
Red		
Paragraph ref	Consideration should also be given to preparing a checklist and/or other guidance to assist officers preparing reports.	
195		

Action plan point	Issue & Recommendation	Management Comments
13	Risk Management	<p>The Audit and Governance Panel has, in recent months, already sought to improve its oversight of risk management arrangements more generally and risk management is now a standing agenda item. At its August 2016 meeting, the Panel requested that a specific report from management on key corporate risks and how these are being managed be submitted to the November 2016 meeting of the Panel (and regularly thereafter) to assist it in fulfilling its terms of reference in relation assessing the adequacy and effectiveness of the Council's risk management arrangements.</p> <p>Responsible Officers: Head of Revenue and E-Government Solutions and Head of Audit and Inspection</p> <p>Completion Date: November 2016</p>
Rating	We noted that arrangements for risk management at a corporate and service level remained inconsistent. Whilst some progress has recently been made with regard to risk management arrangements key risks were not reported to the Audit and Governance Panel throughout the year. As the Audit and Governance Panel has the ultimate responsibility and oversight for risk management arrangements, going-forward we would expect the Audit and Governance Panel to establish effective controls for the oversight of risk in order to fulfil its responsibilities	
Amber		
Paragraph ref		
200		

Action plan point	Issue & Recommendation	Management Comments
14	<p>Audit Scotland's national performance reports</p> <p>The Council has an established process in place for considering these national performance audit reports. This process does not include a formalised process for updating the Audit and Governance Panel of progress made against implementing actions previously committed in response to these reports.</p> <p>The Council should introduce a requirement that progress made against actions identified reported to the Panel.</p>	<p>As the external auditor has identified, all national audit outputs are reported to the Audit and Governance Panel shortly after publication together with management responses to the issues raised and actions planned in response to any audit recommendations. We recognise that no formal follow-up process has been put in place for such reports and will address this by with immediate effect requiring relevant management to submit a follow-up report to the Panel highlighting (1) providing a general update on the issues raised by the national report and (2) how previously agreed actions have been addressed.</p> <p>Responsible Officers: Head of Audit and Inspection</p> <p>Completion Date: November 2016</p>
Rating		
Green		
Paragraph ref		
218		



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