

North Lanarkshire Council

Management Report 2017/18



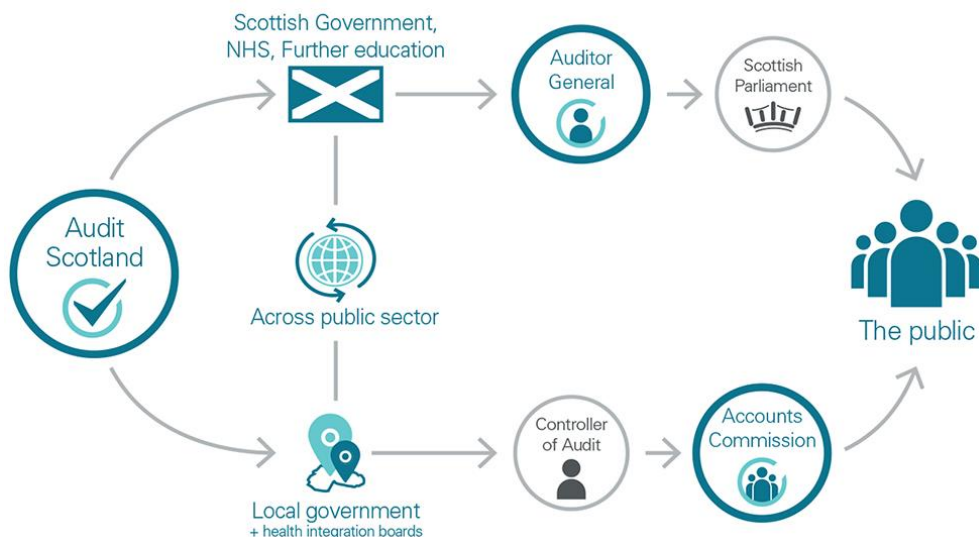
 AUDIT SCOTLAND

Prepared for North Lanarkshire Council
April 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key findings from our interim audit work at North Lanarkshire Council. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan that audit and develop an effective audit approach for the annual accounts. They also require us to work closely with internal audit to make best use of the available resources and avoid duplication of effort.

2. This is reflected in our responsibilities under the [Code of Audit Practice](#) which requires us to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. In addition, we carried out work on the audit dimensions, as required by the [Code of Audit Practice](#), which can be found in [Exhibit 1](#). Further work on these areas will be included in our annual audit report.

Exhibit 1 Audit dimensions



Conclusion

4. We identified some financial control weaknesses as summarised in [Exhibit 2](#), particularly in relation to the presence of second officer checks over reconciliations and transactions. From our discussions with staff involved in the operation of key financial controls we have been advised that reductions in staffing numbers are impacting on their ability to implement some of the expected controls. This will impact on our audit approach and will require us to complete additional audit testing to obtain the required assurances for our audit of the 2017/18 annual accounts.

5. In terms of our wider dimension audit work we have analysed the results from the Your Reputation at Risk survey and concluded our work on financial sustainability. The areas where there is scope for improvement are set out in [Exhibit 7](#).

6. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to North Lanarkshire Council.

7. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Internal control systems and action plan

9. In accordance with *ISA 330: the auditor's response to assessed risk*, our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work once we have confirmed that the control environment and operation remain unchanged and no significant weaknesses had been identified.

10. Our 2017/18 testing covered key controls in a number of areas including bank and feeder system reconciliations, payroll validation and exception reporting, authorisation of journals, changes to supplier bank details and standing data and IT access controls. Additionally our testing covered key areas for preventing and detecting fraud including the issuing of credit notes and the awarding of discretionary discounts and grant payments. We also assessed the financial controls within social work services for self directed support, independent homecare and independent care homes to support the assurances required for the audit of the North Lanarkshire Integration Joint Board.



Bank reconciliations



Payroll controls



IT access



Journals

11. In accordance with the detail contained within our Annual Audit Plan we were able to rely on the work of internal audit for application controls within payroll and creditor payment authorisation. The work of internal audit was clearly documented, the review process was robust and the audit evidence within the files supported the findings included within the reports. We will review internal audit's work on the Council Tax Reducation Scheme when this becomes available and reflect the findings in our audit approach.

12. The key control risks identified during the interim audit are detailed in [Exhibit 2](#). These findings will inform our approach to the financial statements audit as detailed in the final column. To support the delivery of the financial statements audit we also completed some early audit work on income and non-pay expenditure. No issues were identified.

Exhibit 2

Key findings and action plan 2017/18

Audit finding	Management response, responsible officer and target date	Additional audit procedures
<p>1 Reconciliations</p> <p>Bank and feeder reconciliations (between the general ledger and other key systems) should be completed each month and reviewed by a second officer. From audit testing and discussions with staff, these are not always being completed in accordance with the planned timetable. In some cases the period is being extended to every two months. Audit testing also identified a bank reconciliation that was not independently reviewed.</p> <p>There is a risk that reconciling items are not investigated in a timely manner and frauds or errors are not identified.</p>	<p>The delay of reconciliations in certain periods was a risk-based management decision, taken as a temporary measure to manage the impact of staff absences and vacancies. Recruitment is underway, and once complete, will allow to return to the planned timetable. The impact of any delays will not be significant and will not impact on the detection of fraud and errors. No further action is proposed in respect of this area.</p> <p>Management will however ensure that bank reconciliations are independently reviewed on every occasion in order to minimise risk of fraud and error.</p>	<p>We will review the year end reconciliation and sample test any significant reconciling items.</p>

Audit finding	Management response, responsible officer and target date	Additional audit procedures
<p>2 Payroll – second officer checks</p> <p>There are no supervisory checks of details entered into the iTrent payroll system including new starts, leavers and changes to standing data.</p> <p>There is a risk that inaccurate information is input into the payroll system.</p>	<p>A weekly audit check was introduced in March 2018. A sample of records is taken of all data processed by the transactional teams and is then checked and verified. If there are any errors found, appropriate remedial action is taken.</p> <p>Responsible officer: Jennifer Hardy, Employee Service Centre Manager</p> <p>Implemented by: March 2018</p>	<p>We will extend our substantive testing of payroll changes to ensure they have been accurately processed within the system.</p>
<p>3 Payroll validation checks</p> <p>The Systems Admin & Business Intelligence team are currently implementing a monthly process where they will email each service a report of all staff on iTrent and include details of their latest pay. This has only been implemented since December 2017 covering infrastructure services. Work is ongoing to create reports for the remaining services. This process does not ask for positive confirmation that the listing is correct.</p> <p>There is the risk that the absence of a periodic validation of all staff through positive confirmation of current employment could lead to staff being paid or maintained on payroll standing data after they have left employment.</p>	<p>Management reports are set up and being rolled out across all Services from April 2018.</p> <p>A monthly reminder will be sent to managers, via the manager briefing, to advise them to regularly review these reports and take action as appropriate.</p> <p>Responsible officer: Jennifer Hardy, Employee Service Centre Manager</p> <p>Implemented by: June 2018</p>	<p>We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records / manager response.</p>

Audit finding	Management response, responsible officer and target date	Additional audit procedures
<p>4 Awarding of non-domestic rates and council tax discounts / reliefs – second officer checks</p> <p>Second officer checks are undertaken on a random sample of processing staffs work as follows:</p> <ul style="list-style-type: none"> • council tax - 15 per week • non-domestic rates - 45 per month <p>No detailed record is maintained of the type of transactions checked and therefore we cannot gain assurance over the number of reliefs / discounts subject to second officer review. In addition there was evidence that for some periods sampled, the prescribed number of second officer checks were not completed.</p> <p>There is a risk that discounts / reliefs are incorrectly or fraudulently awarded.</p>	<p>The checking regime will be reviewed and amended to record evidence of the checks conducted and any remedial actions identified. The checking regime will be targeted to ensure a spread of transactions including discounts, reliefs, exemptions and liability changes to provide assurance of the account validity.</p> <p>Responsible officer: Paul Doherty, Incomes Manager</p> <p>Implemented by: May 2018</p>	<p>We will extend our substantive testing of non-domestic rates and council tax income to ensure discounts and reliefs are correctly awarded.</p>
<p>5 Awarding of council tax discounts / reliefs – annual review</p> <p>A timetable is in place to ensure all council tax discounts and reliefs are subject to annual or biennial reviews.</p> <p>Audit testing of a sample of 15 transactions subject to annual reviews identified that some timescales had not been met. 2 individuals in receipt of student exemptions had not returned their supporting back up by the deadline, however a cancellation letter has not been sent and they were still in receipt of this exemption.</p> <p>There is a risk that discounts or reliefs continue to be awarded to individuals who do not meet the requirements.</p>	<p>The cancellation run for Student Exemptions was postponed from its scheduled date of 23/02/18 to 09/04/18. This period was to allow students sufficient time to obtain the relevant evidence of student status from their education establishments.</p> <p>In future the annual schedule will be set to avoid reviews / cancellations coinciding with demand peaks and any deviation from the schedule will be agreed and recorded by the Incomes Manager.</p> <p>Responsible officer: Paul Doherty, Incomes Manager</p> <p>Implemented by: May 2018</p>	<p>We will extend our substantive testing of non-domestic rates and council tax income to ensure discounts and reliefs are correctly awarded.</p>

Governance and transparency

Your Reputation at Risk (YR@R) Survey

13. YR@R is a web-based survey that helps bodies assess the business conduct and behaviours of staff. YR@R provides a snapshot of whether staff have a good awareness of the council's key governance policies, including codes of conduct, anti-fraud and whistleblowing, and are aware of their responsibilities and the correct course of action to take in response to specific scenarios.

14. During February and March 2018, staff within the council (approximately 5,000 individuals) were invited to participate in the web based survey. A total of 518 staff completed the survey – a response rate of approximately 10%. The full results of the survey have been provided to council staff to enable further analysis of the data.

15. The responses identified a high levels of awareness in a number of areas including:

- code of conduct - 94% of respondents are aware of the code of conduct, with 84% knowing how to access it
- conflicts of interest – 96% of respondents stated that they understand what is meant by a conflict of interest, although only 67% felt that the policy was clear, understandable and easy to follow
- gifts and hospitality – 96% of respondents understand what is meant by gifts and hospitality, with 95% stating that they are aware of the council's policy, 86% feeling able to readily access it and 80% describing it as clear, understandable and easy to follow.

16. The survey also explored a range of scenarios where staff should inform their employer and overall the responses showed a reasonable awareness from respondents of the expected reporting. In addition there is good knowledge of when items can be accepted and when they should be refused and reported internally. 88% of respondents confirmed that they would report to a senior officer if they had suspicions about the conduct of one of the council's suppliers.

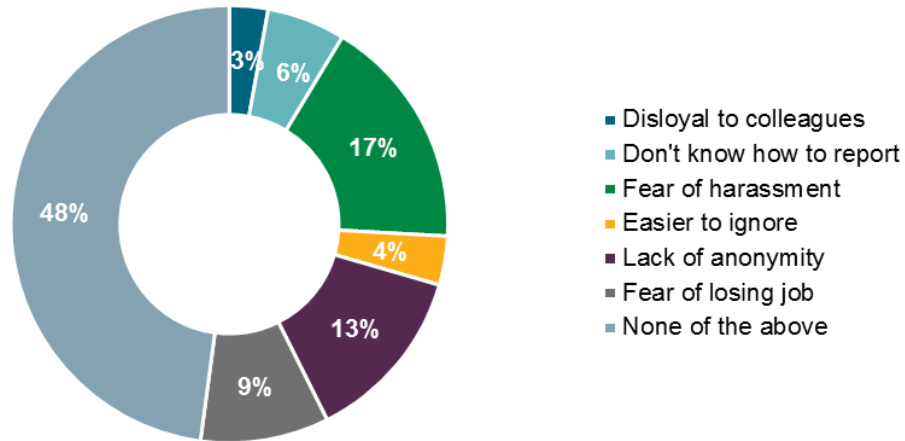
17. A number of key risk areas are identified from the responses which provide an insight into the areas where the council may wish to focus additional engagement activity.

Whistleblowing, fraud and corruption

18. Only 75% of respondents are aware of the council's whistleblowing policy with 69% knowing how to access it. The survey asks respondents to indicate, from a selected list, all of the reasons that would stop them from reporting a suspicion through the whistleblowing process. A majority, 52%, said that other factors would impact on whether they would report a concern including fear of harassment and lack of anonymity. The overall results are shown in [Exhibit 3](#).

Exhibit 3

Whistleblowing responses



Source: YR@R results

19. Only 72% of respondents are aware of the council's anti-fraud policy, 64% know how to access the policy and 50% would describe it as clear, understandable and easy to follow. 36% of respondents also indicated that they do not know how to report concerns regarding fraud, bribery, corruption, suspicious activity and unacceptable business practice.

20. A key aspect of the whistleblowing and fraud responses is likely to relate to the accessibility of appropriate training. 70% of staff who responded have never received whistleblowing or counter-fraud and corruption training. In addition only 23% of respondents indicated that they feel the council has a strong counter-fraud culture that is driven by the leadership team. It is vital that staff have a good understanding of the policies in place and of the correct course of action that should be taken should they have concerns.

[Exhibit 7 – point 1](#)

Potential conflicts of interest

21. 17 staff members (3% of the individuals who responded) stated that they have a potential conflict of interest, however 5 staff members confirmed that they had not advised anyone at the council of this. This represents about 1% of the responses. All staff should understand the importance of reporting any potential conflicts of interest.

[Exhibit 7 – point 2](#)

National Fraud Initiative

22. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The latest position for North Lanarkshire Council is summarised in [Exhibit 4](#).

Exhibit 4

National Fraud Initiative

Total number of matches



18,874

Completed/closed investigations



5,573

(30%)

Total number of recommended matches



7,473

Completed/closed recommended matches



1,578

(21%)

Source: NFI website

23. The council recognises that the NFI is an important tool in allowing investigative resources to be targeted at risk areas. To date 16 cases have been concluded as fraud or error, with a cumulative value of £128,000. The majority of these related to housing benefits and council tax reduction for which the council has plans in place to recover all overpayments. One NFI match related to a £26,000 payroll overpayment by North Lanarkshire Council to an ex-employee formerly based in the education service. The overpayment has now been fully recovered and plans are in place to strengthen relevant controls within Education, Youth and Communities.

24. Overall progress in following up the NFI matches from the latest exercise has been slow with only 21% of recommended matches fully investigated. However the majority of the outstanding matches, approximately 95%, involve housing tenant records where there is an underlying issue with the data. Current arrangements mean that the details of household composition are not being routinely updated i.e. when a person moves from a family home to their own home, they may exist on both records. A data cleansing exercise is underway to resolve this.

25. Although internal audit regularly reports the outcomes of the NFI exercise to the Audit and Scrutiny Panel no detail is provided on the overall progress of following up matches.

[Exhibit 7 – point 3](#)

Financial sustainability

26. Financial sustainability is concerned with the robustness of the financial planning arrangements in place to identify and address financial risks in the medium (two to five years) and longer term (longer than five years). The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, so that councils can respond to the acknowledged demographic and fiscal pressures.

2018/19 budget

27. In June 2016 North Lanarkshire Council agreed a new strategic approach to budgeting which included the establishment of a Sounding Board, comprising cross-party representation, to develop and implement the service prioritisation process to support the production of a balanced budget.

This was recognised as good practice in supporting robust scrutiny of savings plans. During the 2018/19 budget setting process, the cross-party Sounding Board was discontinued. This impacts on the council's ability to develop medium term savings plans which are vital given the projected levels of financial savings that will be required to balance the budget over the next three years.

[Exhibit 7 - point 4](#)

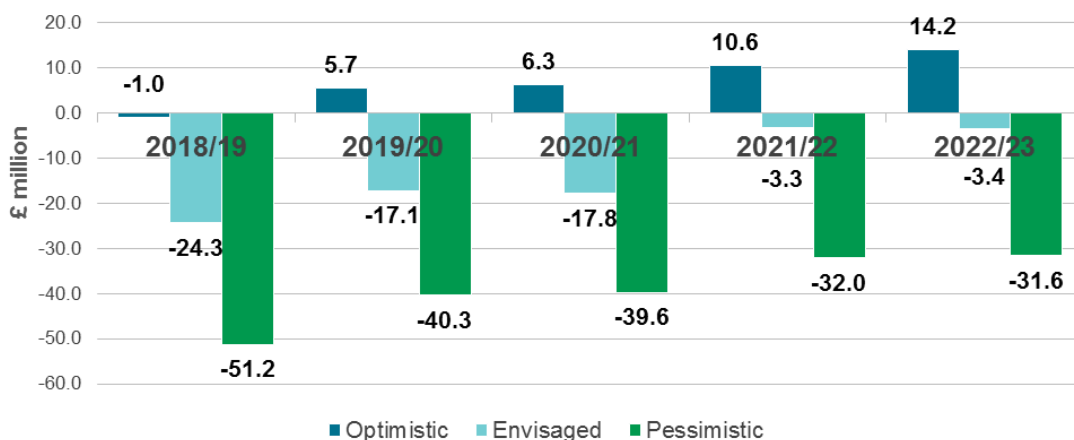
28. The 2018/19 budget was approved by the council in February 2018. In setting its budget the council recognised a 3% increase in council tax and the use of £2.5 million of reserves, on a one-off basis, to meet its short term funding gap, until the planned savings can be delivered.

Financial plan

29. In September 2017 the Policy and Resources Committee approved the council's long term financial plan (2018/19 to 2022/23). The plan recognised a range of risk based outcomes / assumptions which were presented over three scenarios; optimistic, envisaged and pessimistic as shown in in [Exhibit 5](#). The plan highlights an envisaged budget gap of £66 million over the five year period to 2022/23 with the majority of these savings being required in the next 3 years.

Exhibit 5

Projected financial position



Source: North Lanarkshire Council 2018/19 to 2022/23 Financial Plan

30. The envisaged budget gap is based on a model with the following key assumptions which, from a high level analysis, provide a sound basis for financial planning:

- further cuts to local government funding, broadly on the scale seen in 2016/17 and 2017/18 continuing to 2020/21, followed by a cash equivalent settlement in the final two years
- a three per cent annual council tax increase which, coupled with an increase in the council tax base, results in approximately £5 million per annum of additional income
- future pay agreements will be in line with the current 2017/18 position and will continue with annual pay increases of 1.5%.

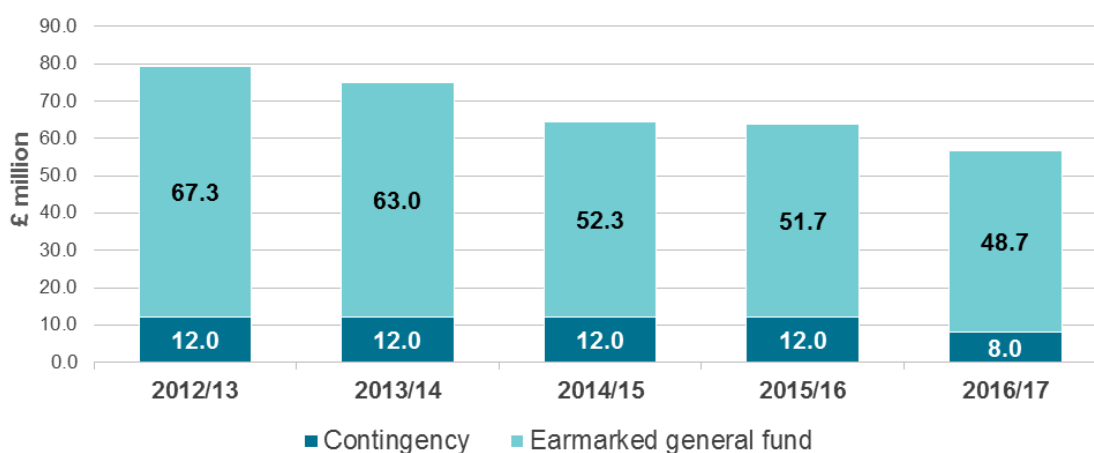
Use of reserves

31. North Lanarkshire Council has managed its financial position in recent years through a combination of achieving savings, use of reserves and underspending against budget. The Local Government Overview Report notes that councils with good financial management demonstrate well-planned and managed use of reserves, in accordance with carefully thought out council policies.

32. Although the council does not have a written long term reserves policy in place it assesses its level of contingency (unearmarked general fund) each year as part of the budget setting process. In setting the 2017/18 budget the council decided to reduce its contingency from £12 million to £8 million due to the establishment of the Integrated Joint Board as they assess that the council has transferred some financial risks.

33. The council's total general fund reserve has reduced from £79 million in 2012/13 (6.6% of gross expenditure) to £57 million in 2016/17 (4.2% of gross expenditure) as shown in [Exhibit 6](#).

Exhibit 6 General fund



Source: North Lanarkshire Council Accounts 2012/13 to 2016/17

34. The Accounts Commission report [Financial Overview 2016/17](#) recognises that there is no prescribed level, but states that typically councils' policies are to have an uncommitted general fund balance of between 2% and 4%. Although North Lanarkshire Council is below this level, at 1%, we recognise the annual consideration detailed at paragraph [32](#).

35. We previously recommended that the reporting of reserves should be reviewed to ensure that it reflects the planned use of and contribution to each reserve. In 2017/18 we have seen improvements in this area with the council extending its reporting on the anticipated year end reserves position, allowing more effective scrutiny of the use of earmarked reserves.

Wider dimension action plan

36. The wider dimension risks identified in the previous paragraphs are detailed in [Exhibit 7](#). These findings will help inform our annual audit report conclusions on each of the wider dimension areas.

Exhibit 7

Key findings and action plan 2017/18

Audit finding	Management response	Responsible officer and target date
<p>1 Awareness training – whistleblowing, fraud, and corruption</p> <p>The YR@R survey results indicate a lack of understanding of fraud and corruption arrangements and how to report concerns. The reasons why staff wouldn't use whistleblowing arrangements are also interesting and present barriers within the organisation. Integral to this is the number of staff who state that they have not received any training in this area and who do not feel that the council has a strong counter fraud culture.</p> <p>There is a risk that staff awareness and behaviours do not support the council's whistleblowing and fraud arrangements.</p>	<p>While it is disappointing that only 75% of the staff who responded are aware of the Whistleblowing Policy (and 69% knowing how to access it) it should be borne in mind that these are percentages of 518 staff out of approximately 15,000.</p> <p>It should be pointed out that paragraph 20 of their Contract of Employment directs employees to access policies and associated guidance from Connect or from their workplace and that if they require any clarification they should contact their line manager. In addition, recent changes to the Policy were discussed with the trades unions and the Steering Group for the Employee Equality Forum.</p> <p>Each of the reasons provided at exhibit 3 as a basis for not reporting have already been adequately addressed in the Policy itself and it is difficult to see how the wording of the Policy could be any clearer in respect of the reporting process and the safeguards in place.</p> <p>However, with a view to further addressing the concerns raised, the responsible officer will liaise with Corporate Communications to ensure that the content of the Policy is again highlighted to all members of staff.</p>	<p>Responsible officer: Archie Aitken, Head of Business for Legal & Democratic Solutions</p> <p>Implemented by: December 2018</p>

Audit finding	Management response	Responsible officer and target date
<p>2 Reporting conflicts of interest</p> <p>The responses to the YR@R survey indicate that there are staff with potential conflicts of interest that haven't been reported.</p> <p>There is a risk that staff are not reporting conflicts of interest which could impact on the robustness of arrangements and identification of potential issues.</p>	<p>Conflicts of interest and how these should be managed form an important part of the Council's Code of Conduct for Employees, as well as being incorporated in detailed operational guidance where of significantly higher risk (e.g. within procurement and purchasing arrangements).</p> <p>It is accepted that there is no de minimis in the context of conflict of interest and the declaration thereof.</p> <p>The Council has periodically reminded staff of the expectations placed upon them by the Code and the responsible officer will liaise with Corporate Communications to ensure that these obligations are highlighted again to staff later in 2018-19.</p> <p>Internal Audit also regularly undertake data matching and other audit exercises to identify possible conflicts of interest, with no significant issues having been identified.</p>	<p>Responsible officer: Ken Adamson, Head of Audit and Inspection</p> <p>Archie Aitken, Head of Business for Legal & Democratic Solutions</p> <p>Implemented by: December 2018</p>
<p>3 NFI – follow up of recommended matches</p> <p>Progress in following up the recommended NFI matches from the latest exercise has been slow with only 21% fully investigated. The data cleansing exercise for the housing system should be completed to strengthen the robustness of the matches generated. Internal audit reporting should also be extended to include progress on following up matches.</p> <p>There is a risk that underlying issues are not identified and addressed in a timely manner and that committee members are not sighted on progress in addressing matches.</p>	<p>Given that there were 18,874 matches (7,473 recommended), not all matches could be reviewed with the resources available. 5,856 matches have been completed with a focus on those considered to be highest risk.</p> <p>The 21% figure is also somewhat misleading as Revenue Services do not intend to review Council Tax to Electoral Register matches as they undertake their own data matching exercises using credit reference agency data and consider that they achieve more benefits/savings from this method. To date for the</p>	<p>Responsible officer: Ken Adamson, Head of Audit and Inspection</p> <p>Implemented by: June 2018</p>

Audit finding	Management response	Responsible officer and target date
	<p>financial year, the net calculation of 25% Single Persons Discount as a result of the Service's review campaign is the cancellation of 1,107 SPDs at a value of £236,340.</p> <p>In addition, Housing Services have only completed 320 of their 6,763 matches. Housing Solutions are currently working on improving the quality of data contained within HSMS in a bid to reduce the number of matches in future NFI exercises. Work has indicated that the majority of these matches have arisen due to the poor quality (accuracy and timeliness) of data held on HSMS as properties are not regularly updated to reflect movements in the household composition. Housing Solutions are still progressing the data cleanse to remove duplicate records and household members that no longer reside at properties. They are currently progressing matches within the 'key' NFI reports, updating HSMS with current and accurate data to reduce the number of poor quality matches in future NFI exercises. Waiting list and right to buy matches are not yet being dealt with as the tenant matches are considered a higher priority.</p> <p>Reports on progress with NFI have been submitted periodically to the Audit and Scrutiny Panel (and the former Audit and Governance Panel) but the format and content of such reporting will be re-assessed to ensure actions and progress are more transparent.</p>	

Audit finding	Management response	Responsible officer and target date
<p>4 Medium term savings plans</p> <p>The council currently does not have a cross party budget setting arrangement. The process for identifying savings focuses on the next financial year. With significant budget gaps predicted for the next three years North Lanarkshire Council should ensure there are robust cross party arrangements in place to make the difficult decisions needed to bridge the medium term financial gaps.</p> <p>As the financial challenges are unlikely to reduce there is a risk that without clear savings plans future budget gaps will not be met.</p>	<p>The Council will continue to review the medium term financial plan and will provide updates on the financial outlook and resultant anticipated budget gap to the Corporate Management Team and to elected members. Work to identify and implement savings proposals will remain ongoing.</p>	<p>Responsible officer: Paul Hughes, Head of Financial Solutions</p> <p>Implemented by: Ongoing</p>

Source: Audit Scotland

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