

North Lanarkshire Council

2017/18 Annual Audit Report



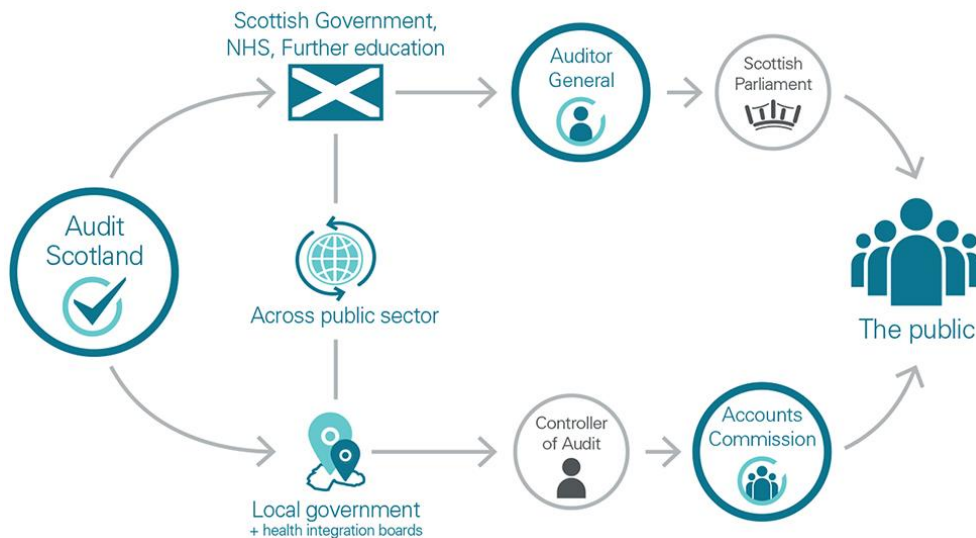
 AUDIT SCOTLAND

Prepared for the Members of North Lanarkshire Council and the Controller of Audit
September 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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Key messages

2017/18 annual accounts

- 1 Our audit opinions were all unqualified.
- 2 There is a significant adjustment in the council liabilities and pension reserve position (£119 million) and in the council's group (£117 million), which has been adjusted in the audited accounts.

Financial management

- 3 The council's 2017/18 budget of £752 million included the use of reserves (£14 million) and planned savings of £25 million. The actual use of reserves was less than this due to effective financial management.
- 4 The council has appropriate internal control arrangements but we identified the need for improvements in the area of second officer checks in some financial systems.

Financial sustainability

- 5 The immediate financial position is challenging with planned recent use of reserves, limited recourse to unearmarked reserves and significant savings targets. However the council has a track record of delivering savings and looks to be on track to do this again in 2018/19.
- 6 The council would benefit from greater cross-party working in determining a more strategic approach to medium term financial decisions and to support the delivery of the financial savings required in the five-year financial plan.

Governance and transparency

- 7 The council has appropriate governance arrangements to support effective decision making. Our survey conducted in the year shows that the council should engage further with staff to ensure they are familiar with fraud and corruption arrangements.

Value for money

- 8 A new performance management framework has been introduced to align with the council's business plan and ambitions, but more work is required to develop and embed these arrangements.
- 9 Recent inspectorate reports have been positive and performance improvements have been made in a number of areas including education, social work and domestic waste.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of North Lanarkshire Council and its group. The scope of the audit was set out in our Annual Audit Plan presented to the Audit and Scrutiny Panel on 5 February 2018. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

2. The main elements of our audit work in 2017/18 have been:

- a review of the council's key financial systems
- an audit of North Lanarkshire Council and its group's 2017/18 annual accounts and the statement of accounts of the section 106 charities administered by the council
- audit work covering the council's arrangements for securing Best Value covering financial management, financial sustainability and performance.

3. Our responsibilities as independent auditor, appointed by the Accounts Commission, are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#), supplementary guidance, and International Standards on Auditing in the UK.

4. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

5. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during the normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes actions from last year and progress against these.

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fees set out in our Annual Audit Plan, of £498,880 for the council and £8,600 for the section 106 charities, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

8. Our aim is to add value to North Lanarkshire Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

9. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

10. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

Our audit opinions were all unqualified.

There is a significant adjustment in the council liabilities and pension reserve position (£119 million) and in the council's group (£117 million), which has been adjusted in the audited accounts.

Audit opinions on the annual accounts

11. The unaudited annual accounts for North Lanarkshire Council and its group for the year ended 31 March 2018 were considered by the Audit and Scrutiny Panel on 27 June 2018. On 23 September 2018 the Audit and Scrutiny Panel approved the audited accounts for signing.

12. In our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with relevant guidance.

13. In addition we considered the other information in the annual accounts, the adequacy of accounting records, the information and explanations we received and the achievement of prescribed financial objectives. Our audit work did not identify any issues we need to report.

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on section 106 charities

14. A separate independent auditor's report is required for each registered charity, where members of North Lanarkshire Council are sole trustees. In recent years the council has managed to transfer some charitable trusts into local charities with similar purposes and this work is continuing for the remaining trusts.

15. We received the charities' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions on the 2017/18 financial statements of:

- North Lanarkshire Council Educational Endowments
- Dall Christmas Charity Fund for the Poor
- JC McNaught Poor Children's Holiday Fund
- Mitchell Fund for Poor of Shotts

- Sir Robert Stewart Bequest for Deserving Poor of Parish of Cambusnethan
- Sir Robert Stewart Bequest for Poor of Parish of Shotts.

Submission of the annual accounts for audit

16. We received the unaudited annual accounts on 27 June 2018 in line with the agreed audit timetable set out in our 2017/18 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Risk of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement and wider dimension risks that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

18. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the annual accounts.

19. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£13 million
Performance materiality	£3 million
Reporting threshold	£150,000

Source: Audit Scotland, Annual Audit Plan 2017/18

20. We also set separate materiality levels for the five trusts with charitable status and the education trust as outlined in [Exhibit 3](#). On receipt of the trust annual accounts our original materiality calculations were revised based on the updated information available.

Exhibit 3

Trust Materiality values

Trust	Planning materiality	Performance materiality	Reporting threshold
Dall Christmas Charity Fund for the Poor	£101	£91	£5
JC McNaught Poor Children's Holiday Fund	£70	£63	£4
Mitchell Fund for Poor of Shotts	£46	£41	£2
Sir Robert Stewart Bequest for Deserving Poor of Parish of Cambusnethan	£27	£24	£1
Sir Robert Stewart Bequest for Poor of Parish of Shotts	£65	£59	£3
North Lanarkshire Council Educational Endowments	£18,000	£11,000	£350

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260


21. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 4](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

22. The findings include our views about significant qualitative aspects of the council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosures

Exhibit 4

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Pension Scheme Valuation</p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets reported in the council's balance sheet being understated by £34 million. This issue existed across the public sector.</p> <p>In updating the IAS19 report the actuaries identified an error in the original calculation resulting in an increase to the council's pension liability of £153 million.</p> <p>The asset valuation issue also affected the subsidiaries in the group accounts resulting in a decrease in the pension liability of £1.7 million.</p>	<p>This has been adjusted for in the audited accounts. The amendments resulted in a net increase to the council's pension liability of £119 million and in the council's group of £117 million.</p>
<p>2. Group</p> <p>Improvements have been made to the arrangements for preparing the group financial statements. We consider, however that further improvements can be made by:</p> <ul style="list-style-type: none"> • documenting the review of group body accounting policies to ensure consistency with the council • introducing a process for agreeing intra group transactions with subsidiaries. <p>Audit work has confirmed that the maximum possible error would be £1.3 million as detailed at para 24 below.</p>	<p>We were able to gain assurance from work undertaken by the council to reconcile intragroup transactions with subsidiaries. In addition, a review of accounting policies was performed which established that there are no significant differences in policies.</p> <p> Recommendation bf (refer appendix 1, action plan)</p>
<p>3. Financial Guarantee</p> <p>In 2013/14 the council agreed to provide North Lanarkshire Properties LLP with a financial guarantee, underwriting the debt service costs for a loan of £45 million, up to a limit of 80%. In recognition of this financial guarantee the council made an initial provision of £1.1 million which has now been revised to £0.6 million in 2017/18. This was incorrectly classified as borrowing on the balance sheet in the unaudited accounts.</p>	<p>The financial guarantee has been reclassified as a provision on the balance sheet.</p>
<p>4. Remuneration Report</p> <p>The exit packages disclosures in the unaudited accounts contained some inconsistencies due to a combination of estimated and final costs being used. A full review of exit package payments was undertaken to ensure final information was used where available. This issue was isolated to the disclosure and had no impact on the financial statements.</p> <p>A number of other amendments were made to the disclosures within the remuneration report including the revision of the in-year pension contributions.</p>	<p>The disclosures in the remuneration report has been amended to correct the errors identified.</p>

Finding	Resolution
<p>5. Accrual for Voluntary Redundancy Costs</p> <p>In 2017/18 the council accrued £2.46 million for redundancy costs in Infrastructure that will arise from savings plans agreed as part of the 2018/19 budget. We concluded that the estimation basis used to calculate these costs was quite cautious, however we obtained evidence from the costs that have arisen so far in 2018/19 support this.</p>	<p>The estimate was based on the best available information at the time.</p>

How we evaluate misstatements

23. There was one material adjustment to the financial statements arising from our audit. This related to the error identified in local government pension scheme valuations across Scotland as highlighted in [Exhibit 4](#) above.

24. In addition, as noted in [Exhibit 4](#) the council has not introduced a process for agreeing income and expenditure transactions with subsidiaries. An exercise was completed by finance staff to confirm differences between the accounts of the bodies and concluded that the maximum possible error would be an increase in the net expenditure of subsidiaries of £1.3 million with a similar movement in the group reserves. It is our responsibility to request that all misstatements in the accounts, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for this item.

25. In assessing the total errors we recognised that these exceeded our overall performance materiality of £3 million. We are content that we have identified the entire error associated with the pension valuations and the maximum possible error associated with the consolidation of subsidiaries. We therefore decided that no further audit work was required.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

27. In total, nine agreed actions were raised in 2016/17. Of these:

- seven have been fully implemented
- two are only partially actioned.

28. Overall the council has made reasonable progress in implementing these actions.

Other findings

29. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Part 2

Financial management



Main judgements

The council's 2017/18 budget of £752 million included the use of reserves (£14 million) and planned savings (£25 million). The actual use of reserves was less than this due to effective financial management.

The council has a track record of delivering savings.

The council has appropriate internal control arrangements but we identified the need for improvements in the area of second officer checks in some financial systems.

The council's budget was £752 million and this included the use of reserves (£14 million) and savings (£25 million)

30. In February 2017 the council approved a balanced revenue budget of £752 million for 2017/18 including the requirement to achieve savings of £25 million (see paragraph 38) and the use of reserves of £14 million. The use of reserves included one-off assistance to the Integrated Joint Board (IJB) of £3 million and a further £11 million dependent on savings being identified and planned for delivery in 2018/19.

Financial management and reporting is effective

31. The council effectively monitors the budget position through monthly budget monitoring reports to the Corporate Management Team (CMT), and quarterly reports taken to the Finance and Organisational Business Sub-Committee. In addition, performance against budget for each service area is reported to the relevant service committee. Details of how the year end outturn position developed throughout 2017/18 is included in [Exhibit 5](#).

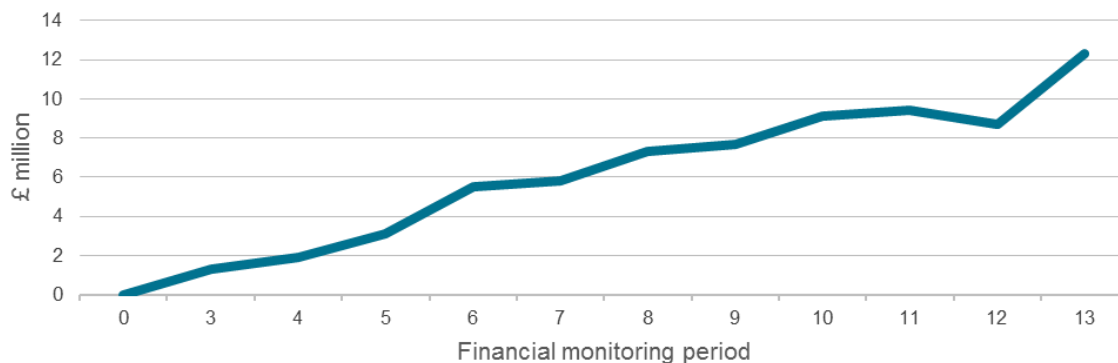
32. Financial forecasting is an embedded part of management and reporting. From our review of budget monitoring reports we concluded that they provided an overall picture of the budget position at service level. The reports forecast the outturn position for the year and include good narrative explanations for significant variances against budget. This allows both members and officers to carry out effective scrutiny of the council's finances.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

The year-end general fund surplus of £12.6 million developed through the year and was reported in financial monitoring reports

Exhibit 5

Summary of outturn reporting of the projected year-end surplus during 2017/18



Source: North Lanarkshire Council Revenue Budget Monitoring Reports

33. In May 2018 the council reported a provisional underspend against its 2017/18 revenue budget of £12.6 million. All services delivered within 1% of budget with many achieving underspends, for example Education, Youth and Communities achieved an overall underspend of £3.7 million due to unallocated early year grant, reduced payments to other bodies and lower headquarters costs. An underspend of £2.3 million was also delivered from loan charges as the short-term benefit of the delay in new long term borrowing as part of the treasury management strategy. Internal reporting reflects the approved 2017/18 revenue budget position which included the planned use of reserves. The use of earmarked reserves are not included in the £12.6 million outturn as these are monitored and reported separately. In addition, the provisional outturn report in May 2018 did not include the £5 million increase to the equal pay provision which was reported as an earmarked element of the change management fund for 2018/19.

The housing revenue account achieved a surplus of £3.6 million

34. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of the social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.

35. The budgeted net expenditure for the HRA in 2017/18 was £126 million primarily funded from council house rents. This resulted in a rent increase of 3% with the average weekly rent increasing from £59.24 to £61.06.

36. In 2017/18, the council recorded a general fund surplus on HRA services of £3.6 million due to over-recovery of rental income in addition to underspends in property costs, the repairs programme and administration costs. The HRA has a cumulative surplus of £11.9 million to be carried forward for future years with a significant proportion (£6.7 million) held for approved specific purposes.

The council has a track record of delivering savings targets

37. With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

38. The council is required to make an annual return to the Scottish Government in respect of recurring efficiency savings. The Finance and Organisational Business Sub Committee routinely receives budget monitoring reports including savings plans which have been risk assessed.

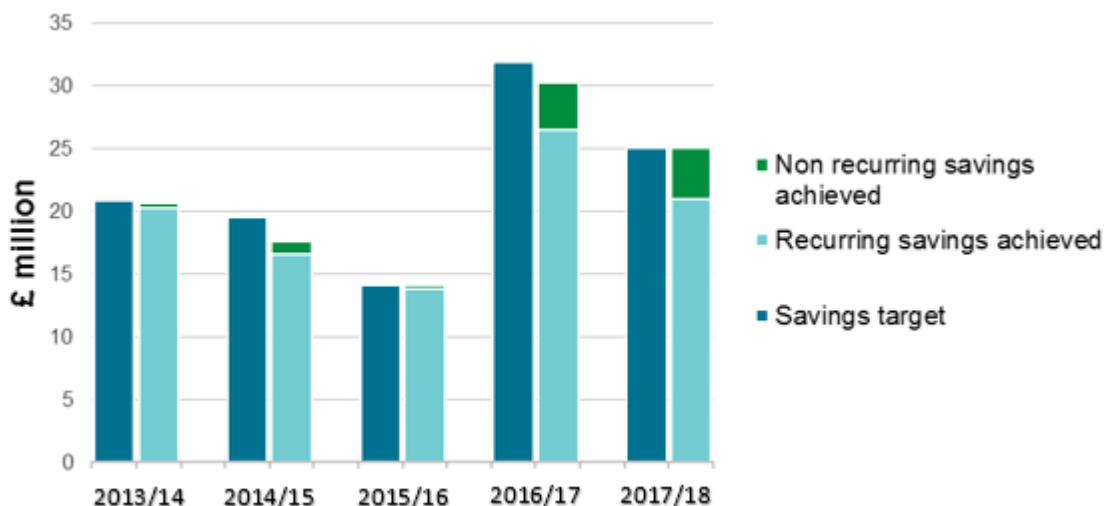
39. As noted above, the 2017/18 revenue budget included £25 million of planned recurrent savings. The council achieved £21 million (84%) of these savings with the shortfall of £4 million being fully achieved through alternative, non-recurring, savings.

40. Savings plans included £8.7 million of base budget adjustments (which were accepted as having minimal or no impact on staff, services or existing policies); £5.3 million from structure reviews, £7.6 million of thematic savings and £3.4 million other savings. We will review the council's transformation programme as part of our BVAR study in 2018/19.

41. As illustrated in [Exhibit 6](#), the council has a successful track record of delivering savings, with non-recurring savings representing a small proportion of the savings achieved each year. Since 2013/14 the council has delivered total cumulative savings of around £112 million.

Exhibit 6

Savings – recurring and non-recurring



Source: North Lanarkshire Council's 2012/13 to 2017/18 Annual Accounts

Capital programme 2017/18

42. 2017/18 is the final year of the council's 5-year Composite Capital Programme 2013/14 to 2017/18. The original budget for 2017/18, including SC1 and City Deal, was £78 million, but this was revised downwards to £64 million during the year.

The capital programme expenditure was £56 million due to slippage and reprofiling of budgets of £10.9 million partially offset by overspends on various projects.

43. The 5 year Composite Capital Programme for 2018/19 – 2022/23 was approved by the Policy and Resources Committee on 21 March 2018. The programme was developed by the Strategic Capital Delivery Group convened of senior officers including Assistant Chief Executives and Heads of Service with the aim of aligning the programme to the approved Council Plan to 2020.

44. The HRA capital programme was comprised of two elements in 2017/18 – the Mainstream Programme (£53 million), and the New Build Programme (£28 million). In May 2018 there was a projected underspend of £10 million on the Mainstream Programme, caused by the impact of the weather conditions over the last few months of the financial year.

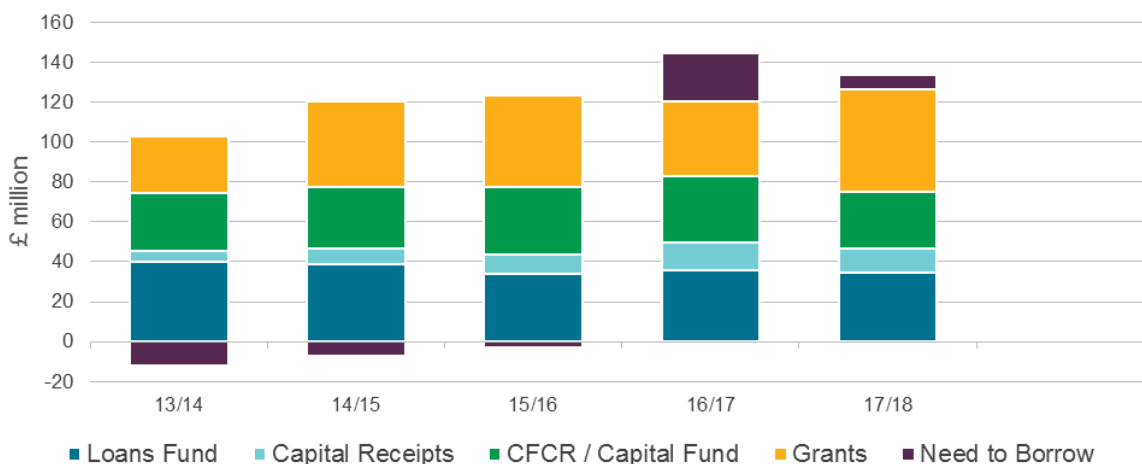
The council did not require further borrowing in 2017/18 as part of its treasury management policy

45. For 2017/18 the mix of resources used to finance the capital expenditure was different to that anticipated and included in the 2017/18 Treasury Management Strategy. The Strategy estimated that the capital programme would be funded by capital grants, capital receipts, credit arrangements, and capital funded from current revenue with a borrowing need of £61 million. The strategy recognised the council intended to source long term borrowing of £85 million in 2017/18, £70 million in 2018/19 and £55 million in 2019/20 to meet the capital financing requirement, replace maturing long-term debt and maintain cash balances necessary to meet ongoing daily liquidity requirements.

46. The actual amount required from borrowing to fund capital expenditure fell from £61 million to £42 million during the year. This is due to an underspend against the capital programme and increases in other funding sources. Therefore, the council has not needed to increase its external borrowing in 2017/18 and met the outstanding balance of £7 million from working capital. The full analysis of capital financing is shown in [Exhibit 7](#).

Exhibit 7

Sources of finance for capital expenditure



Source: North Lanarkshire Council Accounts 2013/14 to 2017/18

Systems of internal control

47. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

48. Our findings were included in our management report that was presented to the Audit and Scrutiny Panel on 30 April 2018. We concluded that there were some control weaknesses, particularly in relation to the presence of second officer checks over reconciliations and transactions. We revised our audit approach in response to these weaknesses to enable us to obtain sufficient assurance to conclude on the 2017/18 annual accounts.



[Recommendation 1 \(refer appendix 1, action plan\)](#)

Part 3

Financial sustainability



Main judgements

The immediate financial position is challenging with planned recent use of reserves, limited recourse to unearmarked reserves and significant savings targets. However the council has a track record of delivering savings and looks to be on track to do this again in 2018/19.

The council would benefit from greater cross-party working in determining a more strategic approach to medium term financial decisions and to support the delivery of the financial savings required in the five-year financial plan.

The council's borrowing position is relatively strong.

The immediate financial position is challenging

49. During 2017/18 the council's general fund reserves (including HRA) reduced by £8 million. This was lower than the planned use of reserves identified in the previous section of this report.

50. This is the second consecutive year that the council has drawn on its general fund revenue reserves (2016/17, £9.2 million). The current general fund balance is £57 million, but this includes £37 million of earmarked reserves, of which £14 million is held in the change management fund, and an HRA balance of £12 million. The unallocated general fund balance stands at £8 million, which provides around 1 year's cover for the annual level of deficit that has occurred recently. This represents a relatively low percentage of total revenues compared to other councils. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

51. The 2018/19 budget was approved by the council in February 2018. This includes a 3% increase in council tax, identified savings of £20 million and the planned use of £2.5 million of reserves to meet the short-term funding gap until the required savings plans can be implemented in 2019/20. These savings include:

- £14 million of base budget adjustments
- £2 million of savings from the transformation programme
- £1 million of savings due to workforce changes
- £3 million of thematic savings.

52. Revenue monitoring reports for 2018/19 (period 4) identify that the council is projecting an underspend of £2.2 million, mainly due to saving in loans charges.

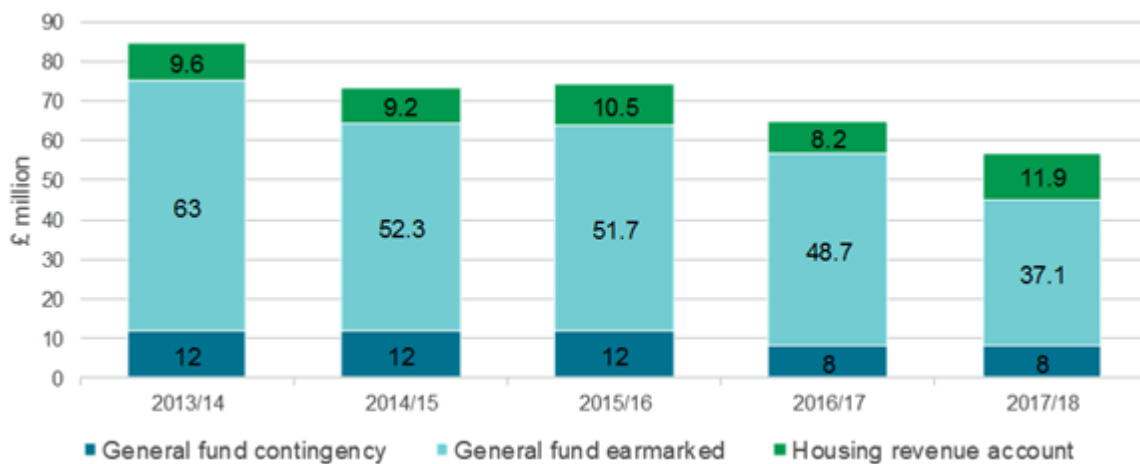
Financial sustainability looks forward to the medium and long term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered

The council is already reporting a likely delivery of planned savings of £16 million (80%). The savings that are unlikely to be delivered are primarily due to delays in implementing new staffing structures and processes. The council has confirmed that, to allow time for identified savings to be delivered, alternative non recurring savings are being identified to bridge the gap.

53. [Exhibit 8](#) provides an analysis of the general fund over the last five years. This shows a notable fall in both committed and uncommitted reserves to maintain financial balance. However another factor is the creation of the IJB in 2016/17 as it now holds reserves to deal with social work pressures. The council therefore took the decision to reduce the contingency from £12 million to £8 million.

Exhibit 8

Analysis of general fund over last five years



Source: North Lanarkshire Council Financial Statements 2013/14 to 2017/18

54. The council has used reserves in four out of the last five years to balance the budget with a total drawdown of £29 million. We recognise that this use of reserves was built into the budget setting process and was part of the wider financial management arrangements. The long term financial plan notes that the council will continue to consider the one-off use of reserves as part of the annual budget setting process if there are assurances and savings plans in place for future years.

55. The earmarked funds of £37.1 million include the £2.5 million for identified revenue budget support in 2018/19, referred to in paragraph 50, and £14 million in a “change management fund”, which is intended to assist the council in achieving transformational change and a sustainable financial position within a current environment of increasing demand pressures and against an expectation of reductions in government funding over the next few years. The earmarked funds also include:

- Balances held by schools £5 million
- Pupil equity fund balances £3 million
- City deal balance £1.5 million.

Cross-party working is required to achieve a sustainable medium term financial position

56. If financial deficits continue and unearmarked general fund reserves are exhausted then the council may be faced with decisions to revise its current plans, increase income or reduce expenditure in the short term. The Accounts Commission has highlighted that elected members need to play a prominent role in responding to budget challenges and that the involvement of councillors is key to ensuring that councils can identify savings and drive improvements to address the funding gap. With a minority administration at North Lanarkshire Council cross party agreement is an essential element of taking strategic decisions.

57. 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 is recognised as good practice in supporting robust scrutiny of savings plans. However, during the 2018/19 budget setting process, the cross-party Sounding Board was discontinued.

58. Since then the council has taken steps to re-establish the Sounding Board with all political parties asked to join a cross-party working group. One political party has declined. Officers have committed to providing the same financial information to the Sounding Board and the political party that is not represented. We believe this is not the most efficient solution, but does help to achieve a majority of members working to determine key medium term financial decisions which are vital given the projected levels of financial savings required to balance the budget over the next three years. Without consensus there is a risk that key decisions don't endure long enough to deliver change programmes.



[Recommendation 2 \(refer appendix 1, action plan\)](#)

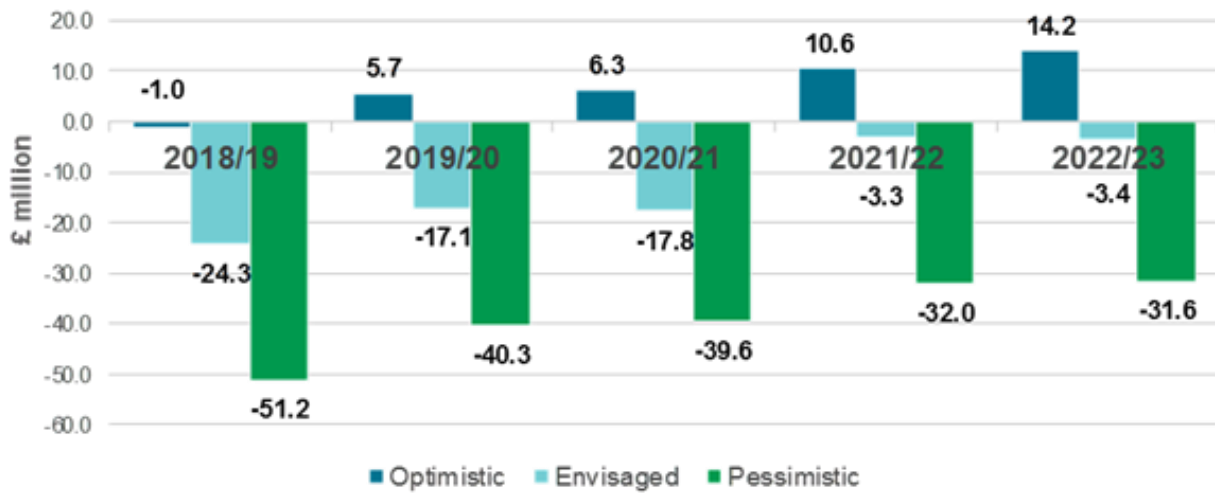
The council has developed a five-year financial plan

59. Councils should have long-term financial strategies (typically covering five to ten years) that forecast the impact of relevant pressures and link spending to the council's strategies. There should also be medium term financial plans (covering three years at least) that present the expected range of budgets based on income and expenditure forecasts.

60. In September 2017 the Policy and Resources Committee approved the council's long term financial plan (2018/19 to 2022/23, covering five years). The plan recognised a range of risk-based outcomes / assumptions which were presented over three scenarios; optimistic, envisaged and pessimistic as shown in [Exhibit 9](#). The council's financial projections to 2022/23 forecast funding gaps of £66 million over the next 5 years. The council plans to bridge these gaps from a combination of efficiency savings and the reprioritisation of services. It will continue to consider the one-off use of reserves (which as noted above are limited) if there are assurances and savings plans in place for future years.

Exhibit 9

Identified funding gaps 2018/19 – 2022/23



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

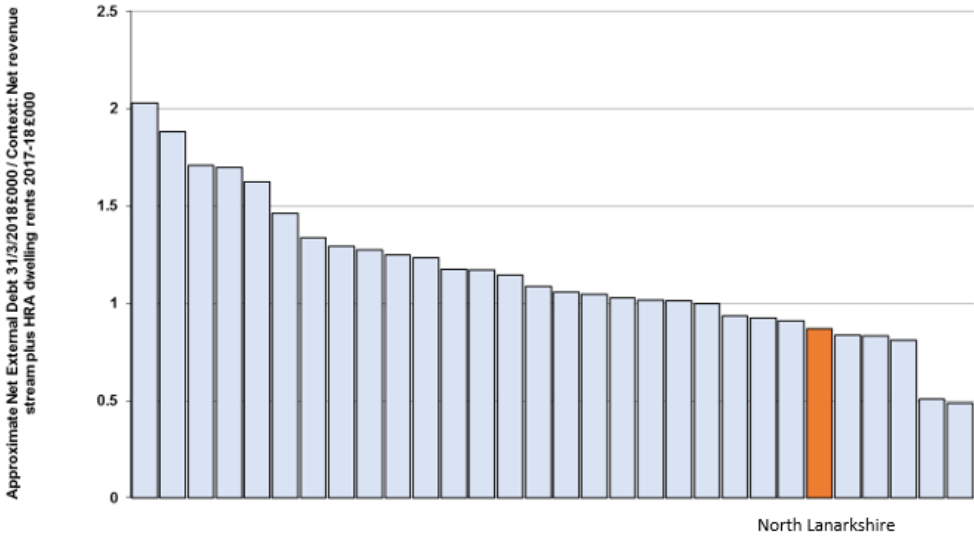
The council's borrowing position is relatively strong

61. Over the long term, one of the key measures of the financial health of a local authority is its ability to realise its reserves through applying investments or further borrowing. This could be relevant to delivering a sustainable financial position over the longer term.

62. The council's total usable reserves of £79 million (this includes general fund, capital reserves and the insurance fund) represent 11% of revenue. This is relatively low compared to other councils but isn't inconsistent with larger urban councils such as Dundee and Glasgow. These usable reserves aren't significantly backed by cash or investments on the balance sheet (which represent about £29 million), so the council would need to borrow to realise these reserves. Despite this, the current and underlying borrowing positions are strong – with current net borrowing (after investments and cash) of £749 million or 87% of annual revenue. This is relatively low compared to many other councils as shown in [Exhibit 10](#).

Exhibit 10

Scottish councils: Net external debt relative to the size of council's net revenue



Source: NLC unaudited financial statements 2017/18

Part 4

Governance and transparency



Main judgements

The council has appropriate governance arrangements in place to support effective decision making.

The council is open and transparent in the way it conducts its business.

The YR@R survey conducted in the year shows that the council should engage further with staff to ensure they are familiar with the council's fraud and corruption arrangements.

We concluded that the council has adequate ICT arrangements and is strengthening its cyber resilience. Planned improvements to business continuity planning are expected to be completed and reported to committee shortly.

Appropriate governance arrangements are in place to support decision making

63. The council is required to establish governance arrangements to ensure that its business is conducted in accordance with law and proper standards, that public money is safeguarded and that the adequacy and effectiveness of these arrangements is monitored.

64. The council's committee structure is a sound foundation for good governance and accountability. However, effective working relationships between and amongst officers and member are critical in ensuring effective governance takes place. We plan to explore this further as part of our Best Value work that will commence later this year.

The council is open and transparent in the way it conducts its business

65. Transparency means that the public have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

66. There is evidence from several sources which demonstrate the council's commitment to transparency, including:

- Members of the public can attend meetings of the full council and other committees and the agendas, papers and minutes of these meetings are available on the council's website.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

- The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.
- The council makes its annual accounts, and the annual account of all its subsidiaries, available on its website.

67. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body. Our 2016/17 audit noted that the management commentary could provide more information on the financial outturn against budget and achievement of savings to improve transparency of financial reporting. Following the 2017/18 audit process the management commentary in the accounts includes additional information to support improved transparency.

68. Overall, we concluded that the council conducts its business in an open and transparent manner.

The data cleansing exercise should improve the council's National Fraud Initiative matches for the 2018/19 exercise

69. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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 irregularity. We considered that the council engaged well with NFI but in our 2017/18 management report identified scope for improvement with only 21% of recommended matches fully investigated. The majority of the outstanding matches, approximately 95%, involve housing tenant records where there is an underlying issue with the data. The council also does not 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.

70. The council has committed to take forward a range of actions to address our recommendations and there has been further progress since we issued our management report in April 2018, with a number of additional cases now closed.

Staff awareness of fraud and corruption arrangements should be improved

71. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. In 2016/17 we recommended that the requirement to complete registers of interest be extended to senior officers so that potential conflicts of interest are identified and appropriately managed. We found that senior officers have now completed registers of interests.

72. During February and March 2018, staff within the council were invited to participate in a Your Reputation @ Risk (YR@R) web-based survey. A total of 518 staff completed the survey – a response rate of approximately 10%. YR@R is a survey that helps bodies assess the business conduct and behaviours of staff. It 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. We reported the detailed findings in our 2017/18 management report.

73. Some key risk areas were identified from the responses. This includes awareness of fraud and corruption arrangements and how to report concerns and conflicts of interest. An awareness campaign for employees is currently underway.



Recommendation 3 ([refer appendix 1, action plan](#))

The council is taking steps to address ICT risks

Cyber security

74. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. This actively encourages public sector bodies to seek independent assurance of critical technical controls, which in their view is achieved by obtaining Cyber Essentials or Cyber Essentials Plus accreditation. North Lanarkshire Council successfully achieved Cyber Essentials in June 2018 and is planning to upgrade to Cyber Essentials Plus within the next year. We concluded that the council has adequate arrangements and is taking steps to strengthen these further.

Public Sector Network

75. The Public Services Network (PSN) is the UK government's high-performance network. Public bodies wishing to connect are required to submit a detailed application together with an independent ICT health check. If the submission meets the assessors' standard, then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard.

76. In May 2015 the council was granted a compliance certificate for 12 months with an action plan. In May 2016 the PSN application did not meet the assessor's standard and the council was given an action plan without a compliance certificate. Subsequent PSN applications were met with a similar response from the assessors and the council is continuing to work to address the points raised with a view to resubmitting in September 2018. In the meantime, the council has continued to connect to the PSN without a compliance certificate being in place.

Business continuity and disaster recovery plans

77. An update to the corporate business continuity plan is on schedule to be completed and reported to members in the September/October committee cycle. As part of this exercise each service has updated their disaster recovery plan. We reviewed a sample of these plans and noted that they did not always include arrangements in the event of the loss of ICT systems. The business continuity planning core group will be responsible for ensuring that procedures in the event of the loss of ICT systems are documented in all disaster recovery plans.

Equal pay liabilities have been reassessed to reflect the likely impact of pension liabilities

78. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. North Lanarkshire Council implemented single status in November 2006 and reports that between 2004/05 and 2015/16 it has spent £130 million compensating workers who had been unfairly paid and settling equal pay claims.

79. Almost 27,000 equal pay claims across Scotland remain live and North Lanarkshire Council still has 1,787 live claims.

80. In 2017/18 the council spent £0.4 million on equal pay settlements. The equal pay provision in the accounts was increased by £5.2 million to take account of the fact that the equal pay settlements are pensionable and therefore, the council may incur additional liabilities.

Corporate leads have been identified to monitor the risks arising from EU withdrawal

81. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

82. The council is aware of the potential risks and have reflected on these areas within their risk register. In addition, individuals have been identified as corporate leads for each area to monitor any developments. The council continues to actively monitor Brexit-related risks in order to be able to respond appropriately and to progress mitigating actions.

Part 5

Value for money



Main judgements

Arrangements for following the public pound are robust and continue to be further developed.

A new performance management framework has been introduced to align with the council's business plan and ambitions, but more work is required to develop and embed these arrangements.

Recent inspectorate reports have been positive.

Performance improvements have been made in a number of areas including education, social work and domestic waste.

Our best value activities this year included a review of performance and a BVAR will be produced in June 2019

83. Best Value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for North Lanarkshire Council is planned to be published in June 2019.

84. The Best Value audit work carried out this year focused on the council's arrangements for demonstrating Best Value in financial planning and financial reporting, with a focus on medium/long term financial plans and the use of reserves. The findings of this work are reported in the previous sections of this report. In addition, we looked at the organisational restructure and performance and outcomes across the council. The findings of this work are reported below.

85. The effectiveness of the council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

Organisational reviews have led to changes in senior management and a culture of improvement is being developed

86. In December 2015 an organisational review was initiated to support the delivery of the council's Business Plan to 2020 and to generate financial savings. The focus of Phase 1 of this review was to create a structure to support the agreed 'one council' approach, which is designed to promote a corporate approach to the planning and delivery of services and to facilitate joint working across the organisation. At the top level this involved replacing the five Executive Directors with three Assistant Chief Executives (plus the Chief Accountable Officer for Health and Social Work) with responsibilities aligned to priorities rather than services.

Value for money is concerned with using resources effectively and continually improving services.

There was also a reduction in the number of Heads of Service, which meant that the total number of chief officer posts fell from 26 to 21.

87. Further restructuring has taken place within services as part of phase 2 and phase 3 of this review to streamline and consolidate activities and reconfigure services to reduce costs and drive improvement.

88. The council recognises that a culture of improvement is vital to the successful delivery of agreed priorities. Steps have already been taken to create a culture of improvement under the 'one council' organisational review. One of the aims of this review was to remove service barriers by creating a structure around the council's priorities. Officers are looking at ways to further develop a positive culture of improvement and we will review progress on this as part of our BVAR work.

Arrangements for following the public pound are robust and continue to be further developed

89. In February 2018, internal audit provided 'substantial assurance' on the council's compliance with the Code of Guidance on funding external bodies and following the public pound. Some areas for improvement were still identified. These relate to the training and development of members, business continuity arrangements when an ALEO relationship ends prematurely and the transparency of board appointments.

A new performance management framework has been developed, but in the transition, information presented to members varied and in some areas was limited

90. In April 2017, the council implemented a new Improvement and Accountability Framework (IAF) to support a corporate approach to planning, performance and improvement ([Exhibit 11](#)). The IAF was developed with the 2016 CIPFA Good Governance Framework, the 2016 Statutory Direction for Public Performance Reporting and the new approach to auditing Best Value in mind. It is designed to focus on measures and targets to enable the council to effectively monitor progress towards delivery of the five priorities in the Business Plan to 2020:

- Improving economic opportunities and outcomes
- Supporting all children to realise their full potential
- Improving health, wellbeing and care of communities
- Improving the council's relationships with communities and the third sector
- Improving the council's resource base.

91. The council is in a transition period as it introduces and continues to develop the new IAF. As a result, the performance information presented to members throughout the year varied and in some areas was limited. 2017/18 performance highlights were reported to the Audit and Scrutiny Panel in April 2018, however this report only provided narrative on the council's successes. Performance reports should provide a balanced picture of the council's performance to enable effective scrutiny and challenge to take place.

Exhibit 11

North Lanarkshire Council's Improvement and Accountability Framework



Source: North Lanarkshire Council

92. The council acknowledges that more work needs to be done to develop the IAF so that performance can be reported effectively. Several actions have been taken or are being progressed to address this, including:

- Improvement Roadshows – a number of these events have been held with staff from across the council to engage them in the changes to the performance management framework
- Challenge and Review Network – a group has been created to undertake detailed performance reviews using performance information under each of the five council priorities
- Peer Challenge and Review Process – a review to be carried out by the CMT against the performance review for each priority
- Performance Cycle – a timetable for performance reporting in 2018/19 has been agreed by Members.

93. The council has taken some positive steps to develop performance management arrangements that will effectively support the new organisational structure, however more needs to be done. The pace of change in this area has been slow and the service committees and Audit and Scrutiny Panel have not received any meaningful 2017/18 performance information for scrutiny. The council has a good level of self-awareness about what action is needed to make the improvements required.



Recommendation 4 (refer appendix 1, action plan)

Self-evaluation has been developed to improve self-awareness

94. During 2017/18, the CMT conducted a Best Value self-evaluation exercise to review the council's position against the Best Value characteristics set out in the 2003 legislation. The recommendations included within the six Audit Scotland Best Value Assurance Reports (BVAR) published to date were also analysed to identify areas for improvement. The results from both these exercises have been brought together in a Corporate Improvement Plan that identifies improvement actions against each of the council's five priorities.

95. Progress against the Corporate Improvement Plan will be monitored and reported to CMT and the Audit and Scrutiny Panel on a six-monthly basis. The improvement actions contained in the Corporate Improvement Plan are, in some cases, high level (e.g. "improve the council's risk management arrangements and progress reviews through transformation programme").

96. A corporate approach to improvement has been adopted through the introduction of a Strategic Self-Assessment Framework which will standardise the approach to self-evaluation at a strategic level. This rolling programme of reviews has been developed to improve the council's self-awareness, an area of improvement identified through their own analysis of the BVAR findings.

Recent inspectorate reports have been positive

97. The Care Inspectorate and Health Improvement Scotland carried out their first joint inspection into the effectiveness of strategic planning and commissioning of health and social care services for all adults in the North Lanarkshire Partnership. Their findings were published in February 2018. The report concluded that the partnership is laying down strong foundations for integrated working. It comments on the partnerships clear shared vision and the effective working relationship it has with third sector organisations. The report also highlighted that the partnership needs to use performance data to drive change and improvement. We comment further on this report in Case Study 1.

98. In July 2018 Education Scotland published its report *How well is North Lanarkshire Council improving learning, raising attainment, and closing the poverty-related attainment gap?* This review was carried out in partnership with Audit Scotland. The outcome was positive with the inspection team concluding that the council is making good progress with improving learning, raising attainment and closing the poverty related gap. No further visits are planned in connection with this inspection as the council's self-evaluation processes are assessed as being robust and leading to improvements. Some aspects for development were also reported, which included strengthening engagement with members through information provided to the education committee. The report also commented on the need for effective working relationships between political groups to improve.

Performance improvements have been made in education, social work and domestic waste

99. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

100. The most recent [National Benchmarking Overview Report 2016/17](#) by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. In June 2018 a report was taken to the Audit and Scrutiny Panel showing the council's performance against the LGBF indicators since 2010/11. In this report members were asked to review the LGBF performance information and identify areas where further information is required to understand the performance levels reported.

101. Performance in education services has continued to improve and North Lanarkshire Council performs better than the Scottish average when looking at the achievement of children from deprived areas. The council is working as a 'challenge authority' to help tackle inequality in education and improve outcomes for children living in deprived areas.

102. North Lanarkshire Council and its partners are leading the way with care in the community. There has been a notable increase in the number of older people in the North Lanarkshire area receiving care at home, with performance increasing from 39 per cent in 2010/11 to 50 per cent in 2016/17. This lies significantly above the Scottish average of 35 per cent (Case study 1). Adult social care services are now the responsibility of the North Lanarkshire Integration Joint Board.

Case study 1

There has been a significant shift in the balance of care for older people in the North Lanarkshire area over the last 5 years with more people being cared for at home

Providing care in a home setting has been a key priority for the Council and its partners for several years and this can be seen through performance. Most recently the North Lanarkshire strategic plan Safer, Healthier, Independent Lives (2016-26) identifies supporting people to live at home independently as a priority. Key strategies that the partnership has adopted to sustain this trend include:

- Community Capacity Building and Carer Support (CCB&CS) – effective use of the third sector within localities to connect people to communities and help them to live independently. The approach is being taken further through the development of a 5 and 10 year strategic plan for the CCB&CS structure. This has been identified as an area of good practice by inspectorates.
- Motherwell Demonstration Project – co-located NHS hospital and community based staff with local authority staff to create integrated rehabilitation teams. The joint approach allows a single assessment to be made about the most appropriate care for an individual to avoid duplication of efforts. Benefits reported to date include reduced waiting times, less home visits and more reablement cases. This successful pilot will be rolled out across the other five localities in 2018/19.
- Assistive technology has become an increasingly important tool in enabling a person to be cared for at home (e.g. acoustic monitoring, GPS tracking, community alarms).

The Joint Inspection by the Care Inspectorate and Healthcare Improvement Scotland on *The effectiveness of strategic planning in the North Lanarkshire Partnership (February 2018)* reported that the principle aim within the partnership is to support people to remain at home and in their communities for as long as possible. Their staff survey found that 85% of respondents agreed or strongly agreed that their service does everything possible to keep adults at home and in their local communities. The report also highlighted the pressure on home support capacity and found that there is not enough capacity in reablement and home support to respond to assessed need, choice and increasing demand. This is reflected in the current performance data as the percentage of adults cared for at home has remained quite static over the last two years despite sitting well above the Scottish average. It is the partnerships intention to maintain the balance of care that has been achieved.

103. There is evidence of the council investing in areas where improvement is required. The percentage of household waste recycled in the council area has remained relatively static over the last 5 years to 2016/17. The council sits below the Scottish average of 45 per cent for this indicator with only 41 percent of household waste being recycled in 2016/17. The Scottish Government's Zero Waste Plan puts a duty on local authorities to ensure 60% of all household waste is recycled by 2020. It was identified that over 50 per cent of the waste disposed of in the residual household waste bins in North Lanarkshire Council was recyclable material and action was taken to address this (Case study 2).

Case study 2

A revised domestic waste collection service was introduced to improve recycling levels and deliver financial savings

In October 2017 the council implemented a revised waste collection service and moved from a two-weekly to a three-weekly collection for residual waste. It also introduced most households to a four bin system that divides waste into paper/card, glass/metal/plastic, food/garden and residual. The project faced some problems during implementation which had financial and reputational consequences for the council.

- New routing software led to more missed bins and pull-outs because staff were unfamiliar with new routes and there were some discrepancies in the data transferred
- Biobags were not delivered on time for food waste
- New bin requests were far higher than projected putting pressure on council resources
- The new tagging policy identified more contaminated bins than expected and the council had to collect these for the first eight months post-implementation.

The above difficulties put pressure on available resources with higher than planned agency staff and overtime costs. Overall, implementation costs were £1.9 million (or 33%) over budget and officers recognise the importance of understanding what went wrong. A project review has been completed by the council's business change programme manager so that lessons learned can be shared. This is due to be reported to the Audit and Scrutiny Panel in November 2018.

Despite the issues in the early stages, six months on the council is reporting a positive change in both the levels of household recycling and residual waste collected. The council anticipates that annual efficiency savings of £0.7 million will materialise from 2018/19. A household waste recycling target of 45% has been set and officers are confident that this will be achieved. The council has not yet engaged with households to check that they are satisfied with the new service provision.

Source: Audit Scotland

Statutory performance indicators (SPIs)

104. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

105. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value

- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

106. The council's 2016/17 annual performance report was presented to the Audit and Scrutiny Panel in October 2017. This includes a set of high level health check indicators that have been identified to enable an ongoing and consistent assessment of the programme of work on the people and communities of North Lanarkshire. The report made good use of narrative alongside these indicators to assess performance under each of the council's five priorities. As this was the first year of reporting in this format there were some gaps in the data where no assessment could be made on overall progress. Performance against the LGBF indicators and an assessment of the council's performance in complaints handling was also reported.

107. Performance information available on the council's website is well structured and readily available to the public. It covers all aspects of the council's performance, but officers should ensure that this is kept up to date. Overall, the council generally complies with SPI 1, although officers recognise that performance management is an area that could be developed further.

108. In accordance with SPI 2 the council reported on all the LGBF indicators. There is evidence that this performance information is being used to direct future scrutiny.

National performance audit reports

109. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published reports which are of direct interest to the council. These are outlined in [Appendix 3](#).

110. Relevant national reports continue to be routinely presented to the Audit and Scrutiny Panel throughout the year. This includes an assessment from management of the council's position against the recommendations in these reports.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Internal controls – management reviews</p> <p>Our work on internal controls identified weaknesses in controls over management reviews relating to NDR, Council Tax and payroll amendments.</p> <p>Risk</p> <p>There is a risk that loss of staff reduces the council's capacity to operate controls over segregation of duties and second officer reviews impacting on the robustness of the control environment.</p>	<p>The council should ensure that robust controls are in place to ensure appropriate segregation of duties and second officer checks are in place to reduce the risk of fraud or error.</p> <p>Paragraph 47</p>	<p>Since this issue was originally raised in the Management Report issued in April 2018, actions have been taken across the systems identified to ensure that appropriate supervisory or second officer checks are routinely undertaken with the need for any remedial action identified and addressed.</p> <p>Responsible officers:</p> <p>Payroll – Jennifer Hardy, Employee Service Centre Manager</p> <p>Council tax and NDR – Paul Doherty, Incomes Manager</p> <p>Agreed date: From May 2018</p>
2	<p>Budget setting process</p> <p>During the 2018/19 budget setting process, the cross-party Sounding Board was discontinued. 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>Risk</p> <p>There is a risk that without clear savings plans future budget gaps will not be met.</p>	<p>The Sounding Board should be re-established to facilitate effective decision making.</p> <p>Paragraph 57</p>	<p>The Sounding Board has been re-established with invitations to participate issued to all political groups. Any political group which elects not to join in the work of the Sounding Board will receive information to enable them to consider and develop future budget proposals.</p> <p>Responsible officer: Paul Hughes, Head of Financial Solutions</p> <p>Agreed date: September 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Your Reputation @ Risk</p> <p>Some key risk areas were identified from the responses to the survey. This includes awareness of fraud and corruption arrangements and how to report concerns and conflicts of interest.</p> <p>Risk</p> <p>Staff awareness and behaviours do not support the council's fraud prevention arrangement.</p>	<p>Officers should improve the communication of procedures for preventing and detecting fraud and corruption to increase awareness amongst staff.</p> <p>Paragraph 72</p>	<p>Since this issue was originally raised in the Management Report issued in April 2018, a number of communications have been targeted at staff to ensure appropriate awareness of the issues highlighted. In addition, following a recent Internal Audit report, management has committed to issuing supplementary guidance to the Employee Code of Conduct to strengthen staff understanding of potential conflicts of interest and how these should be managed.</p> <p>Responsible officer: Heather Liddle, Employee Relations manager</p> <p>Agreed date: September 2018</p>
4	<p>Performance management</p> <p>A new performance management framework, the Improvement and Accountability Framework (IAF), has been introduced to align with the council's business plan and ambitions but more work is required to develop and embed these arrangements. The Audit and Scrutiny Panel have not yet received meaningful 2017/18 performance information.</p> <p>Risk</p> <p>Effective scrutiny of service performance does not take place.</p>	<p>The elected members should receive timely, balanced performance information to allow members to effectively monitor, challenge and scrutinise council performance against planned outcomes and priorities.</p> <p>Paragraph 92</p>	<p>A significant programme of work is already underway to finalise the Improvement and Accountability Framework and to ensure a composite approach to planning, performance and improvement that reflects recent changes and strengthens the council's performance and governance arrangements. This programme of work includes a detailed report on performance and progress against the first year of the Business Plan being submitted to the Audit and Scrutiny Panel in November 2018 and a refreshed Council Plan and finalised IAF submitted for consideration at Policy and Resources in December 2018.</p> <p>Responsible officer: Linda Johnston, Business Transformation Manager</p> <p>Agreed date: December 2018</p>



No. Issue/risk



Recommendation



Agreed management action/timing

Follow up of prior year recommendations

Prior year issues not fully actioned

b/f	Group accounts process	The council should review the group accounts process and introduce consolidation schedules / questionnaires to ensure they have sufficient arrangements in place to support the preparation of the group accounts.	Partially actioned - Although improvements have been made following a review of the group accounts consolidation process there are some further improvements required including agreement of income and expenditure intragroup transactions in year and the review of accounting policies
b/f	PSN compliance	The issue should be summarised and reported to senior officers and committee. An action plan should be prepared and monitored to achieve compliance with PSN.	Partially actioned - Subsequent unsuccessful PSN submissions have been made throughout 2017/18 with a further submission due in September 2018.

Prior year issues fully actioned

b/f	Registers of interest	Senior officers should complete registers of interest at least annually and consideration should be given to extending this to other staff as appropriate.	Actioned – Registers of interest for senior officers have now been completed.
b/f	Accounting for surplus assets	Property staff should provide updates to finance staff during the year to enable asset sales to be correctly accounted for in accordance with IFRS05/ IFRS13. In addition finance staff should ensure the valuation of all in-year asset reclassifications is subject to review.	Actioned – Asset disposals and surplus assets have been correctly valued in the 2017/18 financial statements.
b/f	Internal reporting	The reporting of reserves should be reviewed to ensure that it reflects the planned use of and contribution to each reserve.	Actioned – 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.



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	Medium and long term financial planning	We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary.	Actioned - In September 2017 the Policy and Resources Committee approved the council's 2018/19 to 2022/23 Financial Plan. The plan recognised a range of risk based outcomes / assumptions which were presented over three scenarios; optimistic, envisaged and pessimistic and highlighted 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.
b/f	Internal audit reporting	All internal audit reports should be made available in full to Panel members.	Actioned – In February 2018 Internal Audit reported their revised protocol which states 'Where full copies of Internal Audit reports are not made publicly available in line with these principles, the Head of Audit and Inspection will clearly explain the rationale for this to the Panel. Where this occurs, consideration will also be given to ensuring the maximum possible timely disclosure subject to the particular circumstances of each case'.
b/f	Management commentary	The management commentary disclosures should be reviewed to ensure they support the reader of the accounts in understanding how the year end position relates to the budget set at the start of the year.	Actioned – The unaudited accounts included additional information, however further revision was required to improve the transparency of the financial outturn.
b/f	Information Governance actions	The council has confirmed a number of actions that will be implemented to address the weaknesses identified by the YB@R survey results.	Actioned – Improvements have been implemented and are monitored via the Information Assurance Working Group.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results / conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of significant accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of income and expenditure transactions at the financial year end. 	<p>Results – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p>Conclusion – No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>The Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Establishing and testing the operation of key controls over key income streams, including NDR, council tax and housing rents. • Analytical procedures on income streams. • Detailed substantive testing of revenue transactions focusing on the areas of greatest risk. 	<p>Results – We did not identify any significant issues from our testing of income controls and transactions.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results / conclusions
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the assumptions within ISA240 to the risk of fraud associated with areas of expenditure. North Lanarkshire Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Walkthrough of controls over social care payments. • Detailed substantive testing of expenditure including grants and housing benefit transactions. 	<p>Results – We did not identify any significant issues in our testing of expenditure controls, although we reported areas where controls could be strengthened.</p> <p>Conclusion – No fraud issues were identified.</p>
<p>4 Group accounting</p> <p>North Lanarkshire Council has a complex group requiring the consolidation of a range of subsidiaries, associated and joint venture. The consolidation arrangements are being reviewed for 2017/18 following audit recommendations, particularly in relation to the consistency of accounting treatment and the elimination of intra group transactions. There is a risk over the accuracy and completeness of the group accounts.</p>	<ul style="list-style-type: none"> • Review of the revised consolidation process to confirm appropriateness. • Receipt of completed component audit questionnaires and, where appropriate, meetings with the auditors of material components. • Detailed review of intra-group transactions. 	<p>Results – We identified improvements in the consolidation process including the identification and accounting for intra-group balances. However, weaknesses remain over the consolidation process and adjustments were made in the audited financial statements.</p> <p>Conclusion – The accounts are not materially misstated and the council has agreed to address remaining concerns over the group consolidation arrangements next year.</p>
<p>5 Non current asset accounting</p> <p>Our 2016/17 audit identified aspects of the accounting for surplus assets and asset disposals where improvements were required to ensure the correct accounting treatment. There is a risk that the value of non current assets is materially misclassified and disposal transactions are inaccurate.</p>	<ul style="list-style-type: none"> • Review of the valuation process when an asset becomes surplus. • Substantive testing of a sample of surplus assets and assets disposals. 	<p>Results – From our audit testing of non current assets in 2017/18 no issues were identified in with the accounting treatment of asset disposals and surplus assets.</p> <p>Conclusion – No issues were identified with the accounting for non current assets in 2017/18.</p>












Audit risk	Assurance procedure	Results / conclusions
<p>6 Restatement of the CIES</p> <p>The Code requires authorities to present the service analysis on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the organisational structure under which they operate. The current internal reporting results in double counting of internal recharges which require an adjusting entry in the CIES. Also due to the council's restructure in 2017/18, there is a need to restate the CIES. There is a risk that the income and expenditure is not correctly classified.</p>	<ul style="list-style-type: none"> Review work done on mapping the audited 2016/17 CIES to the new service structure to ensure completeness, accuracy and categorisation of comparative information. Reviewing the consistency, accuracy and completeness of internal management reporting. 	<p>Results – Our audit work on the restatement of the CIES confirmed that the disclosure was complete and that internal recharges have now been eliminated.</p> <p>Conclusion – No issues identified with the restatement of the CIES.</p>
<p>7 Internal controls – management reviews</p> <p>In our 2016/17 audit we reported control weaknesses relating to NDR second officer checks, and payroll validation checks and review of exit packages prior to inclusion in the accounts. Similar weaknesses were also identified within the housing benefits subsidy testing for housing benefits. There is a risk that loss of staff reduces the council's capacity to operate controls over segregation of duties and second officer reviews impacting on the robustness of the control environment.</p>	<ul style="list-style-type: none"> Controls testing of management review arrangements in key areas including NDR, council tax, and payroll. Reliance on the work of internal audit on payment authorisation. Extended substantive testing of NDR, payroll, housing benefit and exit payments. 	<p>Results – Our work on internal controls identified that there continues to be weaknesses in controls over management reviews relating to NDR, Council Tax and payroll amendments.</p> <p>Conclusion – Weaknesses remain over management review controls, however audit testing did not identify any material issues with the amounts included in the financial statements.</p>
<p>Risk of material misstatement identified during the audit process</p>		
<p>- Revaluation of council dwellings</p> <p>The Housing Revenue Account (HRA) in the unaudited accounts contained a £11.6 million negative expenditure transaction associated with the revaluation of council dwellings. The impact of this is that the council recorded a surplus on the provision of services in the CIES. There is a risk that the revaluation of council dwellings is incorrectly accounted for.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' in accordance with ISA500 for the professional valuer. Review of the revaluation charges over the last 5 years to confirm accounting treatment. 	<p>Results – Our audit work on the revaluation of council dwellings confirmed that the 2017/18 valuation resulted in a reversal of previous downward revaluations charged to the HRA.</p> <p>Conclusion – The revaluation of council dwellings was correctly accounted for in the annual accounts.</p>

Audit risk	Assurance procedure	Results / conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>8 Financial sustainability</p> <p>In 2017/18 the council introduced a 5-year financial plan to 2022/23 which sets out the likely level of resources available and considers the level of provision required to meet ongoing cost pressures. However the longer term financial position, beyond the 5-year period, has not been considered and the short to medium term savings plans to support the 5 year financial plan are still in development. The level of usable reserves held by the council has also decreased in recent years. As the financial challenges are unlikely to reduce there is a risk that future budget gaps will not be addressed.</p>	<ul style="list-style-type: none"> Undertake specific audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non recurring savings. Specific review of pay assumptions included within the financial plan. Reliance on the work of internal audit on financial sustainability. 	<p>Results – The council's usable reserves reduced by £4m in 2017/18 and is anticipating the need to use reserves to balance the budget in future years. However the council has a strong borrowing position which can be utilised to realise the reserves.</p> <p>Conclusion – The immediate financial position is challenging however the council has a track record of delivering savings and looks to be on track to do this again in 2018/19.</p>
<p>9 Financial management</p> <p>The approved 2017/18 budget includes savings of £25 million. At period 6 monitoring reports show that 79% of these will be achieved. Actions are being taken to identify alternative savings. In addition the reporting of reserves suggests that the majority of the earmarked reserves will be utilised in year and no detail is provided on plans to contribute to reserves for use in future years. There is a risk that the council fails to make the required level of savings and achieves an unplanned deficit in 2017/18. There is also a risk that the reserves position is not clearly understood when making financial decisions.</p>	<ul style="list-style-type: none"> Review budget monitoring reports and the financial position at the year end. Consider the robustness and completeness of financial monitoring and though the year Undertake specific work on the financial reporting with a focus on reserves. Reliance on the work of internal audit on financial savings. 	<p>Results – The council recognised an underspend of £12.6 million in 2017/18. 84% of identified savings were delivered with the remaining 16% derived from alternative savings options.</p> <p>Conclusion – Financial monitoring in 2017/18 was robust.</p>
<p>10 Governance and transparency</p> <p>Business Continuity</p> <p>A council wide Business Continuity Plan was approved in September 2017, however each service is responsible for creating their own plans for critical services. From a review of the business continuity arrangements there is little focus on contingency arrangements if current IT systems are not available. There is a risk that the council do not have the necessary continuity arrangements in place to limit the impact on services.</p>	<ul style="list-style-type: none"> Review a sample of business continuity arrangements for selected key systems. Reliance on the work of internal audit on business continuity planning. 	<p>Results - An update to the corporate business continuity plan is on schedule to be completed by the end of August 2018 and formally reported thereafter. Each Service has completed an Internal Disaster Recovery Plan which are yet to be reported.</p> <p>Conclusion – Business continuity arrangements remain a work in progress.</p>

Audit risk	Assurance procedure	Results / conclusions
<p>11 Cyber security and PSN compliance</p> <p>North Lanarkshire Council, in common with other public sector bodies, is at risk from cyber attacks and losses of personal data. In addition the council currently does not have a valid Public Sector Network (PSN) certificate. An action plan has been implemented to address concerns and a new application will be submitted in March 2018. There is a risk that a cyber attack or continued non-compliance with PSN could lead to financial and reputational losses for the council.</p>	<ul style="list-style-type: none"> Review the council's assessment against the Scottish Government Cyber Resilience Action Plan. Review progress against the PSN accreditation action plan ahead of the council's submission in March 2018. 	<p>Results - Subsequent unsuccessful PSN submissions have been made throughout 2017/18 with a further submission due in September 2018.</p> <p>North Lanarkshire Council successfully achieved Cyber Essentials in June 2018 and are planning to upgrade to Cyber Essentials plus within the next year.</p> <p>Conclusion – The council continued to work towards the requirements of achieving PSN accreditation, and improvements in cyber security arrangements.</p>
<p>12 Registers of Interest</p> <p>During 2016/17 we reviewed the registers of interest completed by councillors and found that the arrangements met basic requirements in most areas. However, we noted there was no process for senior officers to complete register of interests. There is a risk that poorer conduct and behaviours would undermine established systems of control.</p>	<ul style="list-style-type: none"> Completion of 'Your Reputation @ Risk' survey, which assess business conduct and behaviours of staff within the Council. Review progress of implementing new arrangements for registers of interest for senior officers. 	<p>Results – Registers of Interest for senior offices have now been completed.</p> <p>Conclusion – Senior Officer Registers were reviewed and no omissions from the related party disclosure note was identified.</p>
<p>13 Management Commentary</p> <p>Our 2016/17 audit noted that the management commentary could provide more information on the financial outturn against budget and achievement of savings to improve transparency of financial reporting. There is a risk that the management commentary is inconsistent with other financial information impacting on the overall transparency.</p>	<ul style="list-style-type: none"> Undertake specific discussions with officers on management commentary. Detailed review of management commentary disclosures and assessment of the transparency of budget and outturn narrative and information presented with the financial statements. 	<p>Results – There remained a lack of transparency in the management commentary per the unaudited accounts. However, the management commentary was revised for the audited accounts to include further information on the outturn position and budget.</p> <p>Conclusion – The management commentary per the audited accounts includes sufficient disclosures over the councils' financial performance.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[*Principles for a digital future*](#) – May 2017

[*Self-directed support: 2017 progress report*](#) – August 2017

[*Equal pay in Scottish councils*](#) – September 2017

[*Local government in Scotland: Financial overview 2016/17*](#) – November 2017

North Lanarkshire Council

2017/18 Annual Audit Report

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