

North Lanarkshire Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of North Lanarkshire Council and the Controller of Audit
September 2019

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- 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.



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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

2018/19 annual accounts

- 1** All audit opinions for North Lanarkshire Council, its group and its section 106 charities were unmodified.
- 2** The remuneration report has been revised as a result of the audit process.
- 3** The pensions liability has increased by £26 million due to recent judgements by the UK Supreme Court affecting all final salary schemes across the public sector.

Financial management and sustainability

- 4** The council has a track record of delivering savings but is becoming more dependent on non-recurring savings to balance the budget during the year.
- 5** Financial management and reporting is effective with the in-year use of reserves less than planned.
- 6** In 2019/20, the council is relying on planned use of reserves and savings targets representing 4 per cent of the total budget.
- 7** The council has good medium-term financial plans and a rolling three-year budget is being developed. It does not have a long-term (10 years+) financial plan.
- 8** A Community Investment Fund has been established to support potential additional investment of £705 million over a 10-year period.

Governance, transparency and value for money

- 9** There are appropriate governance arrangements in place, but some issues were identified with recruitment processes in education services, which are being addressed.
- 10** The recent Best Value Assurance Report noted improvement since the previous review in 2008.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of North Lanarkshire Council and its group. The scope of our audit was set out in our 2018/19 annual audit plan presented to the March meeting of the Audit and Scrutiny Panel. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four 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 2018/19 have been:

- an audit of the council and its group 2018/19 annual accounts and the statement of accounts of the section 106 charities administered by the council including the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- an audit of the council's arrangements to secure Best Value as reported in the Best Value Assurance Report published in May 2019.

Added value through the audit

3. We add value to North Lanarkshire Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

4. In so doing, we aim to help North Lanarkshire Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. 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](#) and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the effectiveness of the council's performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability and best value. 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](#) and supplementary guidance.

7. This report raises matters from our audit. The weaknesses and risks identified are only those which have come to our attention 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.

8. 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 outstanding actions from last year and the steps being taken to implement them.

9. 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 therefore the 2018/19 audit fee of £505,000, as set out in our annual audit plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. 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. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

All audit opinions for North Lanarkshire Council and its group were unmodified.

All audit opinions for North Lanarkshire section 106 charities were unmodified.

The remuneration report has been revised as a result of the audit process.

The pensions liability has increased by £26 million due to recent judgements by the UK Supreme Court affecting all final salary schemes across the public sector.

The annual accounts received unmodified opinions

11. The unaudited annual accounts for North Lanarkshire Council and its group for the year ended 31 March 2019 were considered by the Audit and Scrutiny Panel on 27 June 2019. On 25 September 2019 the Audit and Scrutiny Panel approved the audited accounts for signing. We reported, within the independent auditor's report that the:

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

12. In addition, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Finance staff provided good support to the audit team

13. We received the unaudited annual accounts on 27 June 2019 in line with the audit timetable set out in our 2018/19 annual audit plan. The working papers to support the unaudited accounts were of a good standard and finance staff provided good support which assisted the delivery of the audit to deadline.

No objections were received on the council's annual accounts

14. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the annual accounts.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources

The section 106 charities received unmodified opinions

15. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities' legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of North Lanarkshire Council are sole trustees, irrespective of the size of the charity.

16. We received the charities' accounts in line with the agreed timetable and after completing our audit we issued unmodified audit opinions on the 2018/19 statement of accounts of North Lanarkshire Council Educational Endowment and the JC McNaught Poor Children's Holiday Fund.

Good progress has been made in winding up sundry trusts

17. During 2018/19 the council took steps to wind up four of the five sundry trusts and these were removed from the Scottish Charity Register on 5 November 2018. There was, therefore, no requirement to prepare statements of accounts for these charities. The council has made good progress in reducing the number of charitable trusts and is working to identify a solution for the remaining trust.

The Whole of Government Accounts (WGA) assurance statement has been submitted

18. In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 7 August 2019. We completed the required assurance statement and submitted this to the National Audit Office (NAO) by the 27 September 2019 deadline.

We identified and addressed risks of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider dimension audit risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance on these risks. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 annual audit plan.

Our materiality values were unchanged from our plans

20. 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.

21. 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](#). We assess the materiality of uncorrected misstatements both individually and collectively. 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	£3.5 million
Reporting threshold	£250,000

Source: Audit Scotland, Annual Audit Plan 2018/19

22. We also set separate materiality levels for the educational endowment and the remaining charitable trust as outlined in [Exhibit 3](#). On receipt of the unaudited statement of accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 3

Trust materiality values

Trust	Materiality	Performance Materiality	Reporting Threshold
North Lanarkshire Council Educational Endowments	£18,000	£11,000	£350
JC McNaught Poor Children's Holiday Fund	£70	£63	£4

Source: Audit Scotland, Annual Audit Plan 2018/19

We have no qualitative issues to report but note revisions to the remuneration report disclosures and the pension liability following the McCloud judgement

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects of the annual accounts including the accounting policies, accounting estimates and judgements in the 2018/19 annual accounts. Significant findings from the audit are summarised in [Exhibit 4](#).

Exhibit 4

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Remuneration report – Assistant Chief Executive (Health & Social Care)</p> <p>The remuneration report in the unaudited accounts contained a disclosure for the Assistant Chief Executive (Health & Social Care) which included compensation for loss of office. The leaving date was 8 April 2019 and strictly these payments do not form part of the 2018/19 remuneration, however the council’s policy is to disclose the payments in the year in which the decision is made, and the council concluded that this information should be disclosed in the public’s interest.</p> <p>As part of the audit process we requested evidence to support the disclosed payments. During this work officers identified that an overpayment of £12,717 had been made to the individual. This is now being recovered.</p> <p>The compensation for loss of office of £450,802 in the unaudited remuneration report includes £322,157 for “strain on the fund” representing the payment made to the pension fund to cover the shortfall in contributions as a result of early retirement. As this payment was made to the pension fund and not the individual it should be shown as a pension contribution and not part of the compensation payment.</p>	<p>Following discussion with the council we have agreed to these payments remaining within the remuneration report. Additional footnotes have been included to explain the leaving date and provide context for the payments made. In addition, for completeness, we have recommended that the disclosed salary should include all costs incurred up to the leaving date including any accrued holidays paid on departure. A further disclosure, showing the annualised pension cost of £13,740 is now included.</p> <p>The disclosures within the remuneration report have been amended.</p>
<p>2. Remuneration report</p> <p>In addition to the point raised above, the remuneration report in the unaudited accounts required several changes to the disclosures. These related to the remuneration and information to be disclosed for senior councillors, senior employees, the exit packages table, accrued pension benefits disclosures and other presentational amendments.</p>	<p>All required changes have been made to the remuneration report in the audited annual accounts.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>3. Pension scheme valuations</p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case. The UK Government sought leave to appeal this decision but in June 2019 the appeal was denied by the UK Supreme Court.</p> <p>This issue arose in June 2019 and has been treated as an adjusting event. The actuary, Hymans Robertson, produced revised (IAS19) reports for the council and its subsidiaries to take account of the impact of the McCloud case.</p> <p>This has affected all final salary pension schemes across the public sector.</p>	<p>This issue has been adjusted in the audited annual accounts.</p> <p>The amendments resulted in an increase of £25.7 million (3.2%) of the pension liability of the council and £27.6 million for the group.</p> <p>In addition, in accordance with IAS10, a narrative disclosure has been included in Note 6.</p>

Issue	Resolution
<p>4. Accounting for joint venture liabilities</p> <p>The council has always accounted for its share of its joint ventures' net liabilities when consolidating the group accounts due to the payment structure built into the contracts which results in losses during the early years. International Accounting Standard 28 'Investments in Associates and Joint Ventures', requires that the investor should stop recognising further losses once they equal or exceed its interests in the joint venture. A £1.2 million liability has been recognised in the group accounts, however the historic pattern of losses and gains needs to be reviewed to establish the extent of the adjustment required.</p>	<p>The council has agreed to review the accounting treatment in 2019/20 to ensure the timing of the recognition of the liability reflects the accounting standard.</p>

Source: Audit Scotland

All material adjustments have been made in the audited statements

24. There was one material (by value) adjustment to the unaudited financial statements due to the requirement to revise the pension liabilities for the impact of the McCloud judgement detailed in [Exhibit 4](#) above. Adjustments made to the remuneration report were material by their nature. All individual misstatements which exceeded our reporting threshold have been amended in the audited annual accounts.

25. It is our responsibility to request that all misstatements above the reporting threshold are corrected.

Prior year recommendations are being progressed

26. The council has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The council has a track record of delivering savings but is becoming more dependent on non-recurring savings to balance the budget during the year.

Financial management and reporting is effective with the in-year use of reserves less than planned.

The council has appropriate internal control arrangements in most areas, but a robust payroll validation process must be introduced.

The council's 2018/19 general fund revenue budget was £757 million and this included savings target of £20 million and £2.5 million of reserves

27. In February 2018 the council approved a balanced revenue budget of £757 million including the requirement to achieve savings of £20 million and the use of £2.5 million of reserves. The council uses general fund reserves, when setting the budget, to bridge the timing gap that exists between identifying and delivering some future savings plans.

The council has a track record of delivering savings, but is becoming more dependent on non-recurring savings to balance the budget during the year

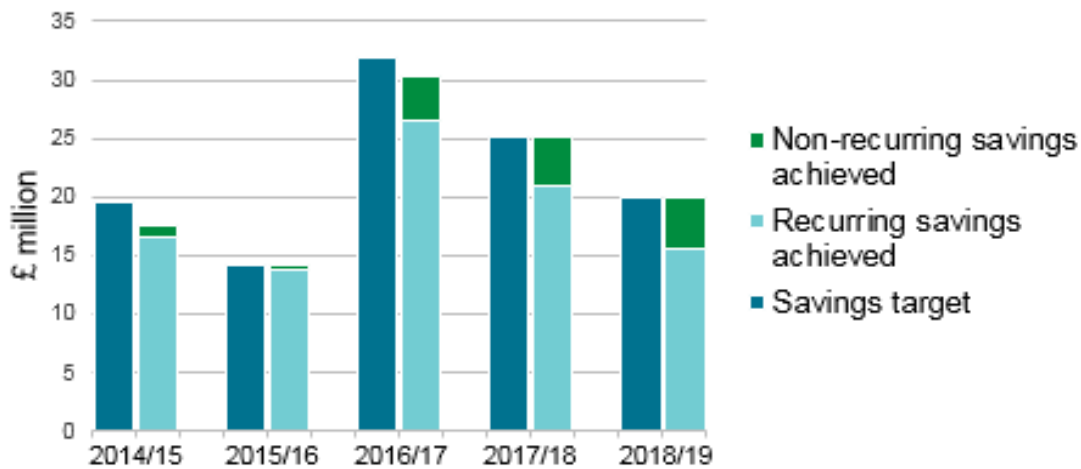
28. The outturn report details that in 2018/19 the council achieved £15.6 million (78 per cent) of the planned savings target of £20 million. The shortfall was dealt with in-year by measures including vacancy management and curtailment of spending across several budget lines. Plans are in place to deliver £3.2 million of the savings shortfall for the start of the 2019/20 financial year with the remaining £1.2 million to be delivered during the year.

29. As illustrated in [Exhibit 5](#), the council has a successful track record of delivering savings, with total cumulative savings since 2014/15 of around £110 million. However, it is evident that, as the financial constraints continue, the council is becoming more dependent on non-recurring savings to balance the budget during the year.

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

Exhibit 5

Savings – recurring v non-recurring



Source: North Lanarkshire Council's 2014/15 to 2018/19 Annual Accounts

Financial management and reporting is effective

30. The council effectively monitors the budget position through 4-weekly budget monitoring reports to the Corporate Management Team and reports to the Finance and Resources Committee each cycle. In addition, performance against budget for each service area is reported to the relevant service committee. Detail of how the year end outturn position developed throughout 2018/19 is included in [Exhibit 6](#).

31. 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.

32. In May 2019 the council reported an underspend against its 2018/19 revenue budget of £10.3 million (1.4 per cent). All services delivered within one per cent of budget with many achieving underspends:

- Education, Youth and Communities achieved an overall underspend of £3 million due to employee cost savings and an over recovery of income from grant programmes
- Chief Executive and Other Corporate Services achieved an underspend of £1.7 million due to increased income from the North Lanarkshire Properties loan guarantee fees, increased PPP income and bank interest receivable.

Exhibit 6

Outturn reporting of the projected year-end surplus during 2018/19

The year-end underspend of £10.3 million developed gradually during the year



Source: North Lanarkshire Council Revenue Budget Monitoring Reports and 2018/19 Annual Accounts

33. The expenditure from earmarked reserves are not included in the budget monitoring reports but reported separately within an appendix. The annual accounts show how the in-year underspend reconciles to the reserve position primarily due to the use of earmarked reserves and savings from the re-profiling of capital programmes.

The 2018/19 use of reserves was less than planned and much lower than the £8 - £9 million used in the previous two years

34. During 2018/19 the council's general fund reserves (including HRA) experienced a small reduction of £0.3 million. This was better than anticipated in the 2018/19 budget setting process of £2.5 million.

35. This is the third consecutive year that the council has drawn on its general fund revenue reserves (2017/18 - £8 million and 2016/17 - £9.2 million), however the limited use of reserves in 2018/19 may indicate that the position is stabilising.

During 2018/19 the housing revenue account balance increased by £1.1 million to £12.9 million

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

37. The budgeted net expenditure for the HRA in 2018/19 was £133 million. As part of the HRA budget setting process in December 2017, the council approved a new rent strategy to deliver wider regeneration to the housing stock. This included an increase of average weekly rental by five per cent to £64.11 in 2018/19 with a further five per cent increase for the next three years.

38. The HRA achieved an overall surplus of £3.9 million. The annual accounts show an increase in the HRA balance of £1.1 million due to the approved transfer to the general fund of £2 million and net contribution to the Insurance fund of £0.8 million. The HRA therefore has a cumulative surplus of £12.9 million to be carried forward for future years with a significant proportion (£8 million) held for approved specific purposes.

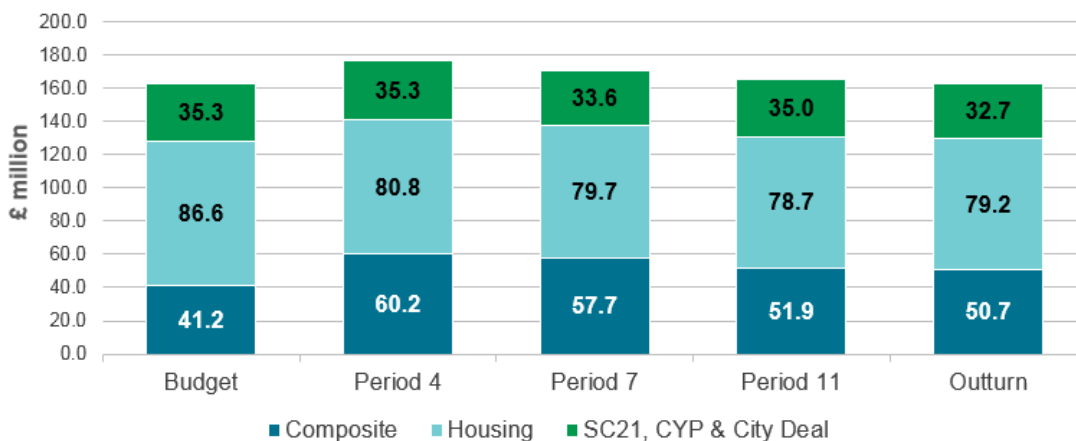
The council is delivering significant capital programmes

39. 2018/19 is the first year of the council's 5-year Composite Capital Programme which was approved by the Policy and Resources Committee in March 2018. The programme was developed by the Strategic Capital Delivery Group which is an officer working group established in July 2017. Service capital bids were assessed and prioritised.

40. Total planned spend within the 5-year programme is £213 million with £41 million planned in 2018/19. However, by the first monitoring report at period 4 the composite programme had been increased to £67 million due to several factors including the carry forward of 2017/18 projects, acceleration of 2019/20 projects and additional funding.

41. As well as the composite programme, North Lanarkshire Council also has a housing programme and monitors separate capital spend on the specific programmes for Schools and Centres 21, Early Years expansion and City Deal. The total capital programme spend is shown in [Exhibit 7](#).

Exhibit 7 Reporting of the capital programmes during 2018/19



Source: North Lanarkshire Council Capital Monitoring Reports

Financial system controls are operating effectively in most areas, but there are weaknesses in payroll validation

42. 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 annual accounts. 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 annual accounts.

43. Our findings were included in our management report that was presented to the Audit and Scrutiny Panel on 27 June 2019. We concluded that key controls were operating effectively in a number of areas, however there is a significant weakness in payroll validation that must be addressed. We revised our audit approach in response to the weaknesses identified to enable us to obtain sufficient assurance to conclude on the 2018/19 annual accounts.



Recommendation 2

The council should ensure that robust controls are in place to address the weaknesses reported in June 2019 and ensure a robust control environment. Areas for specific focus are payroll validation and second officer checks in payables.

Internal audit

44. We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We concluded that the internal audit team complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). We have placed reliance on the work of internal audit for non-domestic rates, housing rents and payroll regularity for our 2018/19 financial statements audit. We also considered the work of internal audit on financial management, Digital NL and City Deal as part of our wider dimension audit responsibilities. A recent independent external assessment of internal audit concluded that the internal audit service fully conforms with the PSIAS.

Part 3

Financial sustainability



Main judgements

The council's 2019/20 general fund revenue budget is £781 million and includes planned use of reserves and a savings target representing 4 per cent of the total.

A Budget Strategy has been approved to support the development of a rolling three-year budget.

The council has good medium-term financial plans based on robust assumptions over a range of scenarios, but no long-term (10 year +) plans.

A Community Investment Fund has been established to support potential additional investment of £705 million over a 10-year period.

The council's 2019/20 general fund revenue budget includes a planned use of reserves and a savings target representing 4 per cent of the total

45. In February 2019 the council approved a 2019/20 revenue budget of £781 million, including a three per cent increase in council tax and a total savings target of £27 million. This 2019/20 savings target includes the delivery of £14 million of new actions, as detailed within the budget, on top of the £13 million savings from actions that had previously been identified. The budget also plans to use £5 million of reserves temporarily until further savings can be achieved in 2020/21. Savings and use of reserves represent 4 per cent of the total budget. All savings included within the budget are recurring in nature.

A Budget Strategy has been approved to support the development of a rolling three-year budget

46. In June 2019 the Policy and Strategy committee approved the Revenue Resources Budget Strategy. The strategy outlines the following key principles that will be applied in setting future budgets:

- future budgets will be developed to cover a rolling three-year period
- budgets will be clearly linked to the achievement of council priorities
- the identification of savings will no longer be restricted to the annual budget setting exercise but will remain under continuous consideration
- service redesign as a result of The Plan for North Lanarkshire will drive future years' savings
- the revenue consequences of capital investment must be clear
- future charging models for services will be informed by benchmarking and the principles of full cost recovery

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

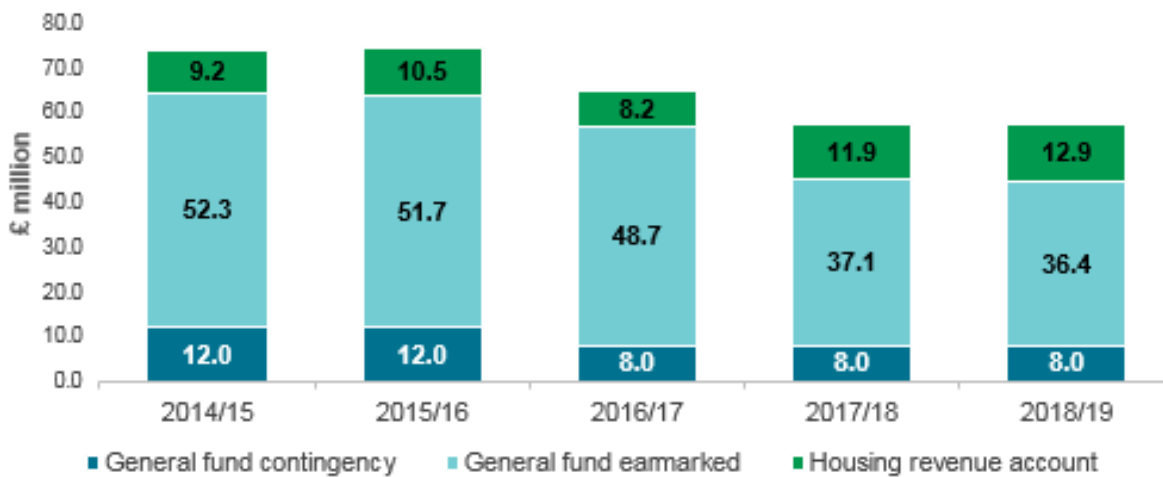
- consideration will continue to be given to the planned, sustainable use of available reserve balances
- proposals to implement participatory budgeting will be considered
- active member involvement is essential.

47. The final point links to comments in our 2017/18 annual audit report on the re-establishment of the Sounding Board to support cross-party working to make medium term financial decisions. We are supportive of the principles outlined above which will see active member involvement in setting a rolling three-year budget.

Most of the £57 million general fund reserve is earmarked, with £8 million (1 per cent of budget) held for future contingencies

48. The general fund is the largest reserve and is used to fund the delivery of services. The current general fund balance is £57 million. This includes the HRA balance of £13 million and £36 million of earmarked reserves. The unallocated general fund balance (contingency) remains at £8 million (1 per cent of net budget) to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. [Exhibit 8](#) provides an analysis of the general fund over the last five years.

Exhibit 8 Analysis of general fund over last five years



Source: North Lanarkshire Council Financial Statements 2014/15 to 2018/19

A “use of reserves policy” is being developed

49. The council does not currently have a reserve strategy, however the Revenue Resources Budget Strategy revealed that a Use of Reserves Policy is currently being considered given the recent need to adopt the one-off use of reserves as part of the annual budget setting process.

A Community Investment Fund has been established to support significant investment in the most deprived communities

50. The council's budget for 2019/20 established the Community Investment Fund, by confirming the commitment to set aside one per cent of council tax increases from 2020/21 and setting aside £0.7 million in revenue resources during 2019/20 to support plans for initial capital investment of £14 million.

51. At the June 2019 Policy and Strategy Committee the plans for the Community Investment Fund were approved. Plans include a sensitivity analysis, which considers the level of future housing growth, increases in council tax and prudential borrowing factors. The terms of reference for the Strategic Capital Delivery Group have been updated to reflect the establishment of the Community Investment Fund and the important role it will play moving forward. A prioritised work plan is now being established.

52. The purpose of the Community Investment Fund is to support the Live, Learn, Work, Invest and Visit ambition and will be targeted at tackling the barriers to growth by focusing on the most deprived communities. The council expects to generate capital investment of £705 million over the next 10-year period. This investment is in addition to the council's core capital programmes, detailed in [paragraph 39 - 41](#) and will look to develop the community hub / integrated campus model, by using funds from the community investment fund to support borrowing and leverage wider investment.

The council has good medium-term financial plans based on robust assumptions over a range of scenarios, but no long-term (10 year +) plans

53. As reported in the [Best Value Assurance Report](#) the council has a five-year financial plan which recognises a range of risk-based scenarios to support ongoing financial sustainability while striving to achieve the strategic priorities.

54. In June 2019 the Policy and Strategy Committee approved the Financial Strategy. It provides an overarching framework for the financial strategies and policies which support financial governance, planning and management. The Medium Term Financial Plan will soon be reviewed and updated to reflect the 2018/19 actual outturn and the plans to develop a three-year budget as outlined at [paragraph 46](#).

55. In the [2017/18 overview report](#), the Accounts Commission asked members to consider if "your council has a long-term financial strategy (ten years or more) that reflects the anticipated changes in demographics and demands on services?" North Lanarkshire Council is one of the 24 councils that does not have a financial plan covering 10 or more years.



Recommendation 3

The council should develop a long-term financial strategy (10 years +) which supports the delivery of The Plan for North Lanarkshire and other long-term strategies.

Part 4

Governance and transparency



Main Judgements

There are appropriate governance arrangements and the council is open and transparent in the way it conducts its business.

There are appropriate standards of conduct for prevention and detection of fraud and error. Some issues were identified with recruitment processes in education services, which are being addressed.

The council has appropriate arrangements to assess the risk of key supplier dependency, including developed contingency plans, and is reasonably prepared for EU withdrawal.

Appropriate governance arrangements are in place to support decision making

56. A revised committee structure was approved at the council meeting on 20 December 2018 and came into effect in January 2019. This resulted in the previous 28 committees, subcommittees, panels and other bodies that sat within the scheme of administration being reduced to 22, but with the membership of a number of committees increased. The new committee structure is clearly aligned with the new council structure and the principles of The Plan for North Lanarkshire.

57. Our observations at committee meetings and review of papers and minutes have confirmed that there is effective scrutiny and decision-making by members and effective working relationships in place.

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

58. 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 committee meetings are readily available on the council's website.
- 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 accounts of all its subsidiaries, available on its 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

There are appropriate standards of conduct for prevention and detection of fraud and error, but there were recruitment issues identified in education services, which are being addressed

59. The council has codes of conduct which are readily available and include references and links to other key policies including the whistle blowing policy and anti-fraud policy. As reported last year, our web-based survey Your Reputation @ Risk found high levels of awareness of the code of conduct, however it also identified some issues in relation to the awareness of fraud and corruption arrangements.

60. As a result of the points several corporate communications were issued to staff to raise the profile and ensure staff were reminded of their obligations.

61. At the March 2019 Audit and Scrutiny Panel internal audit presented the findings from their compliance review of recruitment processes within education services. The review concluded that there were significant concerns as arrangements either did not comply with corporate expectations or were significantly removed from recognised good practice. A full management response was presented to the May 2019 Audit and Scrutiny Panel outlining the actions that have been taken to address the concerns raised and this will be subject to follow up by internal audit.

The council has made good progress in investigating National Fraud Initiative (NFI) matches

62. The NFI in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The latest position for North Lanarkshire Council is summarised in [Exhibit 9](#).

Exhibit 9 NFI activity



16,055
Matches



8,856 (55 per cent)
Completed/closed
investigations



320
In progress
investigations

Source: NFI secure website: www.nfi.gov.uk

63. The council recognises that NFI is an important tool in allowing investigative resources to be targeted at risk areas. The council prioritises reviewing and investigating high risk matches. Since January 2019, when the matches became available, the council has investigated and closed 8,856 matches (55 per cent). To date the council are progressing the recovery of 285 cases which have been concluded as fraud or error, with a cumulative value of £100,008. These all relate to housing benefits and council tax reduction for which the council has plans in place to recover the overpayments.

64. The council has made significant progress in carrying out these investigations since we reported progress in our management report. Blue badge matches are complete, and progress has been made in housing tenant matches.

65. Internal Audit continue to regularly report the outcomes of the NFI exercise to the Audit and Scrutiny Panel.

The council has appropriate arrangements to assess the risk of key supplier dependency and has developed contingency plans

66. The impact of a failure or collapse of a key supplier can be significant to a council and can result in either delays or non-completion of major contracts, or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and / or underperformance of suppliers that are experiencing financial difficulties.

67. During the selection stage of a contract award the council considers a range of selection criteria including “economic and financial standing”. In addition, as part of the council’s business continuity arrangements, each service area must consider the risks associated with their key suppliers and identify appropriate contingency arrangements to mitigate the risks. The council also undertook a specific exercise on supplier risks associated with the withdrawal from the European Union (EU) as detailed below.

The council is reasonably prepared for EU withdrawal

68. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the EU. It is critical that work is underway to understand, assess and prepare for the impact in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation including supply chain – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

69. We assessed the council's readiness for withdrawal from the EU and found them to be reasonably prepared ahead of the expected withdrawal date (29 March 2019). The council has a risk in its strategic risk register in relation to EU withdrawal and has set up a ‘Brexit Preparedness Group’ to take forward any related actions and report to the Corporate Management Team.

70. The council has also identified the number of non-UK EU employees in its workforce and undertaken engagement with each employee. The council does not consider there to be any fundamental risk to services. In terms of financial preparedness, the council is aware of its EU funding streams and has engaged with a range of bodies, such as COSLA and the Scottish Government, to identify the impact of the loss of EU funding. As detailed in [paragraph 53](#) the council has developed a five-year financial plan that considers EU withdrawal. Each service identified its key suppliers and carried out a risk assessment focusing on workforce issues, chain supply and business continuity. No major issues were identified from this work, with the outcome considered by the ‘Brexit Preparedness Group’.

The revised Integration Scheme was approved by the Cabinet Secretary on 29 March 2019

71. In September 2018 the Policy and Resources Committee approved the report “[We Aspire – A Shared Ambition for North Lanarkshire](#)”. The report detailed the plan to transfer social work services for children and families’ and criminal justice back to the council from North Lanarkshire Integration Joint Board (NLIJB). The Integration Scheme has been revised with effect from 1 April 2019 and an exercise to disaggregate the budgets is in progress.

72. The change to the delegated functions prompted a more detailed review of integration. The review was based on themed workstreams (finance, IT, strategic planning, governance, workforce planning, performance and operations), the national self-assessment tool developed in response to the Auditor General and Accounts Commission’s report, [Health and social care integration: update on progress](#), and the [Review of Progress with Integration of Health and Social Care](#) report by the Ministerial Strategic Group for Health and Community Care, and a structural review.

73. The findings were reported to NLIJB in June 2019 and an action plan is being prepared to support implementation and monitoring of progress.

An independent review of the Buchanan and St Ambrose High School Campus concluded that the school and site were safe

74. During 2018/19 a number of concerns were raised following the reporting of ‘blue water’ at Buchanan and St Ambrose High School. Remedial work was completed to address the water issue, however in June 2019 the Deputy First Minister announced an independent review would be conducted due to ongoing concerns being raised. The review was co-chaired by Paul Cackette and Dr Margaret Hannah who are experienced in planning issues and public health. In August 2019 the independent review was published. The review concluded that the school and site were safe based on the satisfactory management of the residual issues raised. There are several recommendations within the review and the council has already taken steps to address them.

Part 5

Value for money



Main judgements

The Best Value audit found the council has demonstrated improvement in most areas from the previous review in 2008.

Council restructuring led to the redundancy of a senior officer which cost £445,080. Weaknesses in controls resulted in an overpayment of £12,717 which is now being recovered. The business case for the decision was incorrect but still provides evidence of value for money.

Previous severance decisions cost the council £7.3 million annually. This is a relatively large amount compared to other councils.

Performance reporting has continued to improve but the website is still not up to date.

The recent Best Value Assurance Report noted improvement since the previous review in 2008

75. Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, 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 for North Lanarkshire Council](#) was published in May 2019.

76. The BVAR said:

- the council has demonstrated improvement in most areas from the 2008 Best Value report, and the appointment of a new chief executive presents an opportunity to increase the pace of change
- The Plan for North Lanarkshire is ambitious and incorporates significant digital, town centre and housing transformation
- the council has improved performance across three of its five priority areas, but more than a quarter of service indicators are below target
- satisfaction levels have declined across some services, but are very good in housing
- the transformation of health and social care is being progressed
- the council is well-placed to tackle the financial challenges ahead as it has a good medium-term financial plan, low borrowing and a track record of delivering savings
- a workforce strategy is in place but some of the plans to support this are still in development

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

- there is a clear focus on partnership working with examples of effective engagement, but the council and its partners have been slow to progress locality plans
- the council has a good approach to self-evaluation and should ensure the actions from these are clear and measurable.

77. At its meeting on 20 June 2019 the council noted the recommendations within the BVAR and confirmed that a progress report will be submitted to the Policy and Strategy Committee after the summer recess with subsequent scrutiny carried out by the Audit and Scrutiny Panel. We will continue to monitor the council's progress against the recommendations as part of our audit and include updates in our future annual audit reports.

Council restructuring led to the redundancy of a senior officer which cost £445,080. This is fully disclosed in the audited remuneration report

78. As noted at [paragraph 71](#) the approval of "[We Aspire – A Shared Ambition for North Lanarkshire](#)" resulted in a new senior management structure for the council. It removed the previous "Assistant Chief Executive" roles and, due to the proposed health and social care changes, made the previous Assistant Chief Executive (Health and Social Care) post redundant resulting in a payment as compensation for loss of office. This included discretionary pension elements of 8.66 years' service, which were consistent with the council's Workforce Change Policy and The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998. A settlement agreement was signed on 17 October 2018 and compensation was agreed which included a statutory redundancy payment.

79. The settlement included 12 weeks payment-in-lieu of notice, following a period of gardening leave from 17 October 2018 to 8 April 2019. Officers have advised that the length of the gardening leave was informed by the likely timescale of the Integration Scheme review, see [paragraph 71 - 73](#). The revised Integration Scheme was approved by the Cabinet Secretary on 29 March 2019. While on gardening leave the individual continued to accrue holidays which were then paid in 2019/20. The total payments to the individual were £119,401 and this is fully disclosed in the council's audited remuneration report.

80. The total cost to the council includes additional payments made to the pension fund (strain on the fund costs) of £325,679, which are also disclosed in the council's audited remuneration report.

Weaknesses in controls led to an overpayment of £12,717 which is now being recovered

81. As noted in [Exhibit 4](#), during our audit, officers identified that the redundancy payment that had been made included an overpayment of £12,717. This amount is now being recovered from the individual.

82. Due to seniority of the postholder, there were only a few staff involved in the process to ensure confidentiality of the negotiation process and the normal second officer checks were not completed. This enabled the payment to be wrongly calculated and paid. Audit testing of a sample of other exit payments found this to be an isolated case, with no other overpayments identified.



Recommendation 4

All exit payments should be subject to independent review to ensure they are accurate before being processed.

The business case did not include the recurring annual cost but still provides evidence of value for money

83. Once the new senior management structure was approved by committee it was delegated to officers to take the necessary steps to secure implementation. A briefing note was prepared identifying the costs and benefits.

84. It is normal practice within the council to assess the pay-back period of these decisions in order to ensure value for money is achieved. Recovery of one-off costs are expected within 3 years.

85. The assessment included the cost and benefits of the full senior management restructure, rather than each post / individual, and we agree this is an appropriate approach arising from the overall restructuring decision.

86. However, we note that the calculation did not include the recurring annual pension cost which should have reduced the net recurring saving. The briefing note calculates a pay-back period of 2 years. When the recurring annual pension cost is included it increases to 2.2 years, which better reflects the consequences of the decision in terms of costs and benefits to the council and is still within the council's expectation of payback within 3 years.

87. Audit testing of a sample of other exit payments found that there was inconsistent documentation of the assessment of future savings / pay-back periods and any potential impact on service delivery.



Recommendation 5

The council should standardise the documentation used to support voluntary early retirement / redundancy decisions and ensure the full cost of the decision is captured.

Previous severance decisions cost the council £7.3 million annually

88. The council incurs annual costs of £7.3 million in connection with previous severance decisions. This equates to 15 per cent of the total pension contributions made each year and one per cent of net service expenditure.

89. These amounts can be payable for many years, until the death of the individual (or a further element until the death of any surviving partner), so the total expected cost can be significant. In comparison to other Scottish councils North Lanarkshire has the 6th highest commitment relative to its size.

The Strategic Performance Framework is in the final stages of development and performance reporting continues to improve

90. The council's performance and its performance management arrangements were considered in our [Best Value Audit Report](#), where we recognised that performance reporting had improved, but that the information on the council's website was not up to date. There has been further progress in recent months with the Audit and Scrutiny Panel receiving focused reviews of some key areas such as sickness absence and customer satisfaction levels.

91. The high-level Strategic Performance Framework and reporting threshold was approved by members in February 2019 and is now in the final stages of full development to agree the measures that will be used to assess progress against The Plan for North Lanarkshire. Significant engagement has taken place to review the portfolio of performance information previously collated and to determine those that will be used moving forward.

The council has appropriate arrangements in place for collecting statutory performance indicators (SPIs) but the website is still not up to date

92. For 2018/19 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](#) (LGBF).

93. There is a time lag in compiling the LGBF information with the 2018/19 results not due until February 2020. Therefore, the council's full 2017/18 LGBF results were presented to the Audit and Scrutiny Panel in September 2019 showing that, for the 77 measures, 48 had improved over time and, of those, 30 were above the national average. The report also highlighted that the council has achieved the top ranking for "looked after children", meaning that they are experiencing fewer placements leading to a more stable environment.

94. Performance information is available on the council's website, however, as reported in the BVAR, this is not up to date with the more recent information presented for education still being 2015/16.

National performance audit reports are routinely presented to the Audit and Scrutiny Panel

95. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published reports that are of direct interest to the council. These are outlined in [Appendix 3](#).

96. 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 contained in the reports.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Remuneration report</p> <p>There were a number of changes to the remuneration report as a result of the audit process to ensure it accurately reflected the required disclosures.</p> <p>Risk</p> <p>There is a risk that the remuneration report in the unaudited accounts contains incorrect information for members and officers.</p>	<p>An internal review process should be introduced for the remuneration report to ensure it accurately reflects the information for officers and members.</p> <p>Exhibit 4, point 1 & 2</p>	<p>Financial Solutions will work with People and Organisational Development (POD) to develop a process to ensure that the Remuneration Report accurately reflects the information for officers and members. This will include POD authorising the information prior to inclusion in the Remuneration Report.</p> <p>Responsible officer: Elaine Kemp, Head of Financial Solutions and Fiona Whittaker, Head of People and Organisational Development</p> <p>Agreed date: June 2020</p>
2	<p>Internal controls</p> <p>Our work on internal controls identified weaknesses in controls across a few systems, but the lack of payroll validation is a concern given the extent of expenditure incurred on staff costs.</p> <p>Risk</p> <p>There is a risk that payroll information is inaccurate and not identified by service departments resulting in incorrect payments.</p>	<p>The council should ensure that robust controls are in place to address the weaknesses reported in June 2019 and ensure a robust control environment. Areas of specific focus are payroll validation and second officer checks in payables.</p> <p>Paragraph 42 - 43</p>	<p>We have responded positively to earlier areas for improvement identified by both Internal and External Audit. The Service will ensure that robust proportionate controls continue to operate in the areas identified and will work with Internal Audit to review the existing framework and identify any ongoing improvement actions necessary.</p> <p>Responsible officer: Fiona Whittaker, Head of People and Organisational Development</p> <p>Agreed date: December 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Long term financial planning</p> <p>North Lanarkshire Council is one of the 24 councils that does not have a financial plan covering 10 or more years. The Plan for North Lanarkshire should be supported by a number of long-term strategies, including financial, to support implementation.</p> <p>Risk</p> <p>The lack of long-term financial planning could impact on sustainability and the delivery of The Plan for North Lanarkshire.</p>	<p>The council should develop a long-term financial strategy (10 years +) which supports the delivery of The Plan for North Lanarkshire and other long-term strategies.</p> <p>Paragraph 53 - 55</p>	<p>Given the current level of uncertainty surrounding funding, and the unknown impact of Brexit, it is considered that a five year medium term plan remains reasonable and appropriate for planning purposes. Financial Planning for more than 5 years is presently considered to be of little value to the Council as it becomes increasingly difficult to project costs and revenues beyond this period. The length of the financial planning period will be reconsidered in the event that the settlement for Local Government is extended beyond 1 year period.</p> <p>Responsible officer: Elaine Kemp, Head of Financial Solutions</p> <p>Agreed date: No further action</p>
4	<p>Overpayment of redundancy</p> <p>During the audit process officers identified that there was an overpayment of £12,717 made to an individual. The expected second officer checks were not completed.</p> <p>Risk</p> <p>Inaccurate payments are made to individuals resulting in a loss to the council.</p>	<p>All exit payments should be subject to independent review to ensure they are accurate before being processed.</p> <p>Paragraph 81 - 82</p>	<p>An improved process has now been implemented, which includes enhanced second officer checks for the processing of all redundancy and exit payments.</p> <p>Responsible officer: Fiona Whittaker, Head of People and Organisational Development</p> <p>Agreed date: September 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p data-bbox="263 409 662 470">Inconsistent documentation of exit payments</p> <p data-bbox="263 488 662 667">Audit testing of a sample of exit payments found that there was inconsistent documentation of the assessment of future savings / pay back period and potential impact on service delivery.</p> <p data-bbox="263 685 662 824">Risk Insufficient consideration is given to the total cost and implications of exit package decisions.</p>	<p data-bbox="699 409 1037 656">The council should standardise the documentation used to support voluntary early retirement / redundancy decisions and ensure the full cost of the decision is captured.</p> <p data-bbox="699 667 917 701">Paragraph 83 - 87</p>	<p data-bbox="1078 409 1426 808">Standard documentation for the approval of all exit packages is now in place and this includes Financial Solutions sign-off. As part of this, the People and Organisational Development Service will ensure that the full costs of exit packages are recorded and that these are taken for approval to the Council's Workforce Change Steering Group.</p> <p data-bbox="1078 819 1426 943">Responsible officer: Fiona Whittaker, Head of People and Organisational Development</p> <p data-bbox="1078 954 1426 999">Agreed date: October 2019</p>

Follow up of prior year recommendations

b/f	Internal controls – management reviews	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 data-bbox="1078 1086 1189 1115">Actioned</p> <p data-bbox="1078 1137 1426 1355">Although we found weaknesses in payroll validation the prior year issues of management reviews in NDR, Council Tax and payroll amendments have been resolved.</p>
b/f	Budget setting process	The Sounding Board should be re-established to facilitate effective decision making.	<p data-bbox="1078 1384 1300 1413">Partially Actioned</p> <p data-bbox="1078 1435 1426 1612">The Revenue Resources Budget Strategy outlines plans to develop a rolling three-year budget which will include active member involvement.</p>
b/f	Your Reputation @ Risk	Officers should improve the communication of procedures for preventing and detecting fraud and corruption to increase awareness amongst staff.	<p data-bbox="1078 1646 1189 1675">Actioned</p> <p data-bbox="1078 1697 1426 1848">A number of corporate communications were issued to staff to raise the profile and ensure they understood their obligations.</p>
b/f	Performance management	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 data-bbox="1078 1881 1189 1910">Actioned</p> <p data-bbox="1078 1933 1426 2145">A new Strategic Performance Framework is in the final stages of development. The Audit and Scrutiny Panel has received performance information throughout the year.</p>

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 and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be significant in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business. 	<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. The costs associated with the management restructure were outside the normal course of business but were subject to detailed audit testing and are appropriately reflected in the annual accounts.</p> <p>Conclusion - No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>North Lanarkshire Council receives a significant amount of income from several sources including income from fees and charges. 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"> • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Testing the operation of key controls over council tax income. • Reliance on the work of Internal Audit on key controls for NDR income and housing rents. 	<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>
<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 where there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Detailed substantive testing of expenditure including grants and housing benefit transactions. • Walkthrough of controls over social care payments. 	<p>Results - We did not identify any significant issues from our testing of expenditure controls and transactions, although we reported specific areas where controls could be strengthened.</p> <p>Conclusion - No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions and estimation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates. • Review appropriateness of actuarial results including comparison with other councils. • Assessment of the appropriateness of the actuarial assumptions. • Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. • Review actual experience of significant estimates made at previous year end. • Review officers' assessment of other significant accruals and provisions at the year end. 	<p>Results – We requested revised IAS19 reports for the council and its subsidiaries to reflect the changes resulting from the McCloud judgement.</p> <p>The IAS19 reports were based on actual investment values at the year end.</p> <p>Audit testing of accruals and provisions did not identify any issues and the judgement of officers was found to be appropriate.</p> <p>Conclusion – No issues were identified.</p>
<p>5 Group accounting</p> <p>North Lanarkshire Council has a complex group with planned changes to the structure in 2018/19 and 2019/20. The consolidation arrangements are being reviewed to ensure consistency of accounting treatment and the elimination of intra group transactions.</p> <p>There is a risk that intra group transactions and balances are not identified and eliminated leading to inaccuracies in the group accounts.</p>	<ul style="list-style-type: none"> • Review and assess the group boundary. • Review the accuracy and completeness of the revised consolidation process. • Detailed review of intra group transactions. • Receipt of completed component audit questionnaires and, where appropriate, meetings with the auditors of material components. 	<p>Results - We identified improvements in the consolidation process and are now satisfied that this is robust. Audit testing of the consolidation adjustments did not identify any issues.</p> <p>Conclusion - No issues were identified.</p>
<p>6 Exit Packages</p> <p>Prior year audit testing has resulted in amendments to the exit packages disclosures between the unaudited and audited annual accounts.</p> <p>There is a risk that the exit packages disclosure in the remuneration report could be misstated.</p>	<ul style="list-style-type: none"> • Walkthrough and testing of controls in place over exit packages. • Consideration of the work of internal audit on Payroll regularity – Payments made in respect of Voluntary Early Retirement / Severance. • Detailed substantive testing of exit packages to ensure these are correctly accounted for and disclosed in the annual accounts. 	<p>Results – There were some amendments to the exit packages disclosures in the accounts and identified issues with weaknesses in controls and reporting that are to be addressed.</p> <p>Conclusion – The exit package disclosures are correctly stated in the annual accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7 Internal Controls</p> <p>In 2017/18 our work identified weaknesses in controls over management reviews relating to NDR, council tax and payroll amendments.</p> <p>There is a risk that the robustness of the control environment is impacted by reductions in second officer reviews. This could also increase the likelihood of fraud not being identified.</p>	<ul style="list-style-type: none"> • Testing the operation of controls over council tax and payroll. • Reliance on the work of Internal Audit on key controls for NDR income. 	<p>Results – Our work on internal controls identified that the controls in NDR and council tax had been strengthened. Payroll validation arrangements are still insufficient.</p> <p>Conclusion – We extended our substantive testing where control weaknesses exist and did not identify any issues with the amounts included in the annual accounts.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>8 Performance management</p> <p>The Improvement and Accountability Framework, and associated performance reporting, is still being developed.</p> <p>There is a risk that without appropriate performance information effective scrutiny cannot take place.</p>	<ul style="list-style-type: none"> • To be considered as part of the Best Value Assurance Report. 	<p>Results – The council has developed a new Strategic Performance Framework and reporting schedule.</p> <p>Conclusion – Performance reporting has improved.</p>
<p>9 EU withdrawal</p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the council is not prepared for the impact of EU withdrawal on the delivery of services.</p>	<ul style="list-style-type: none"> • Assess how the council has prepared for EU withdrawal, including the specific work on workforce impact and dependency on key suppliers. • Consider how the council responds to any emerging issues after March 2019. 	<p>Results – The council has recognised EU withdrawal in the strategic risk register and set up a 'Brexit Preparedness Group'. Work has been completed to assess the impact on workforce and funding streams.</p> <p>Conclusion – We assessed the council's readiness for withdrawal from the EU and found them to be reasonably prepared ahead of the expected withdrawal date.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>10 Dependency on key suppliers</p> <p>Dependency on a key supplier could expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists, there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues.</p> <p>There is a risk that the council is unable to deliver services if it is not aware of its key supplier dependencies and/or fails to have sufficient business continuity arrangements in place.</p>	<ul style="list-style-type: none"> Undertake work to establish the extent, value and nature of key supplier dependencies, including considering the council's work planning for EU withdrawal. Where issues are identified consider the robustness of the business continuity arrangements in place. 	<p>Results – Our work on procurement processes and business continuity arrangements confirmed that supplier financial standing and implications of failure are considered as part of contract award decisions.</p> <p>Conclusion – The council has appropriate arrangements in place to address the risk of key supplier failure.</p>
<p>11 Financial sustainability</p> <p>In December 2018 the Policy and Resources Committee approved the council's five-year medium-term financial plan 2019-20 to 2023-24. This envisages budget gaps of £52 million over the next five years.</p> <p>Although currently financially stable the council anticipates continuing savings gaps and has limited available reserves. Without a strategic approach to financial decisions, including greater cross-party working, there is a risk to the long-term financial sustainability.</p>	<ul style="list-style-type: none"> To be considered as part of the Best Value Assurance Report. 	<p>Results – The council's usable reserves have increased by £9.3 million in 2018/19 mainly due to capital reserves and the general fund movement was less than budgeted due to additional in year savings.</p> <p>Conclusion – The council has good medium-term financial plans in place, and this will be strengthened by the move to a rolling three-year budget, but no long-term plans (10 years +) are in place.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

North Lanarkshire Council

2018/19 Annual Audit Report

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