

North Lanarkshire Council

Management Report 2019/20



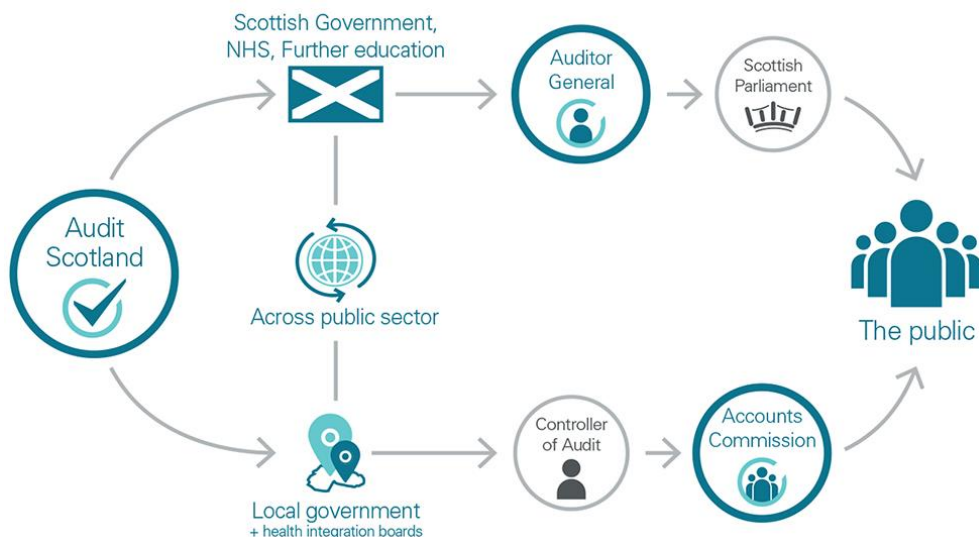
 AUDIT SCOTLAND

Prepared for North Lanarkshire Council
July 2020

Who we are

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

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



About us

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

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

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

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Audit findings

Introduction

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

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

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

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

Exhibit 1 Audit dimensions



4. Scotland's public services are under exceptional pressure due to the COVID-19 pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We have issued a paper, [COVID-19 What it means for public audit in Scotland](#), setting out the principles of Audit Scotland's approach to our financial and performance audit programmes. It also outlines our plans for assessing the impact of COVID-19 on public bodies and reviewing the Scottish public sector's response to the pandemic.

5. Our controls testing was carried out prior to the working restrictions now in place as a result of the COVID-19 pandemic. We recognise that the operation of the control environment may be impacted by the necessary changes.

Conclusion

6. We identified some financial control weaknesses as summarised in [Exhibit 2](#) where we will need to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

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

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

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

Internal control systems and action plan

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

11. Our 2019/20 testing covered key controls in a number of areas including budget monitoring, payroll controls (including second officer checks and exception reporting), segregation of duties over journals, second officer checks over new suppliers and invoices, controls over changes to housing rents standing data and IT access. Additionally, our testing covered key areas for preventing and detecting fraud including the issuing of credit notes and the awarding of discretionary discounts. We also assessed the financial controls within social work services for self-directed support, independent homecare and independent care homes which supports the assurances required for the audit of the North Lanarkshire Integration Joint Board.



Budget monitoring



Payroll controls



IT access



Journals

12. Per our Annual Audit Plan, we placed reliance on the work of internal audit for controls within income and cash collection and housing benefits. We reviewed this work and found it to be clearly documented with a robust review process. In line with *ISA 610: using the work of internal auditors*, we must re-perform a sample of internal audits work in order to place specific reliance on them. Due to the current restrictions as a result of the Covid-19 pandemic there were some items of source evidence we were unable to review. As a result, we will take wider assurance from this work rather than place specific reliance as part of our audit approach for the annual accounts.

13. Prior to completing our controls testing work, we reviewed each of the main financial systems in line with *ISA 315: understanding the entity and its environment*. This highlighted the implementation of the new OpenPortal system for council tax, business rates and benefits as part of the DigitalNL rollout. The system allows individuals to access their information and carry out transactions. The uptake for the service has been higher than anticipated and it is worth noting that this has had a significant impact on council resources as each new registration requires a full check on personal details.

14. The key control risks identified during the interim audit are detailed in [Exhibit 2](#). These findings impact on our approach to the financial statements audit as detailed in the final column.

Exhibit 2

Key findings and action plan 2019/20

Audit Finding	Management response	Additional procedures
<p>1 User access</p> <p>Each financial system has controls in place for staff to gain appropriate access. There are also processes in place to monitor user access through annual or bi-annual reviews. For each of the financial systems reviewed, with the exception of E-Financials and I-Trent, these reviews have not taken place during 2019/20. We note however, that I-Trent should be reviewed bi-annually and this review was carried out once in 2019/20.</p> <p>There is a risk that user access within the main financial systems is not appropriate.</p>	<p>Management will ensure that annual user reviews are carried out for all financial systems, ensuring that user access remains appropriate.</p> <p><i>Ongoing</i></p> <p><i>Responsible Officer: Elaine Kemp, Head of Financial Solutions</i></p>	<p>We will substantively test a sample of transactions across services to ensure they are accurate and valid.</p>

Audit Finding	Management response	Additional procedures
<p>2 Payroll - validation checks</p> <p>We reported last year that employee validation checks carried out within payroll did not include the education service. The process has now been rolled out to the whole council. However, it is still considered incomplete as it does not require positive confirmation that the employee listing is correct.</p> <p>There is the risk that the absence of a periodic validation of all staff through positive confirmation of employment could lead to staff being paid after they have left employment.</p>	<p>Unfortunately positive confirmation is not currently available in iTrent. However an annual validation and positive confirmation exercise will be implemented, starting in August with Education and Families and rolled out to all other services by the end of March 2021.</p> <p><i>March 2021</i></p> <p><i>Responsible Officer: Jennifer Hardy, Employee Service Centre</i></p>	<p>We will substantively test a sample of paid employees to ensure they exist as current employees through confirmation to other records / manager response.</p>
<p>3 Accounts Payable – Pecos interface</p> <p>The interface between the Pecos (ordering) system and E-Financials is being updated. During this update the process, which was previously semi-automated is being done manually. This has led to a delay in the turnaround time for matching invoices, from 4 days to up to a month. Urgent invoices are being prioritised and exception reporting is highlighting those over £10k. Delays have occurred due to staffing changes and testing is on hold due to current circumstances.</p> <p>There is a risk of human error due to the extent of manual input and the time pressure of the backlog.</p>	<p>The Council continue to work towards introducing invoice entry into PECOS which will re-instate auto-matching of invoices to purchase orders. In the meantime there is no increased risk of payments to wrong suppliers. However there may be a small increase in the risk of duplicate payments. In order to mitigate this, Services will continue to be reminded of their responsibilities when passing invoices for payment.</p> <p><i>March 2021</i></p> <p><i>Responsible Officer: Elaine Kemp, Head of Financial Solutions</i></p>	<p>We will substantively test a sample of payments to ensure the supply of goods and services have occurred.</p>
<p>4 Housing Rents - HSMS reconciliations</p> <p>We reported last year that reconciliations between the housing rents system and the general ledger are completed covering two periods at a time. This is still the case and with further staffing changes these have fallen behind.</p> <p>There is a risk that reconciliations are not being completed in a timely manner resulting in discrepancies between the systems not being picked up and corrected.</p>	<p>The Rent Income team carry out reconciliations every 2 periods and will endeavour to continue to do so, however in exceptional circumstances where this cannot be achieved i.e. staff sickness, it is considered there is minimal risk of errors not being corrected as all anomalies will be identified and amended as part of the next reconciliation.</p> <p><i>No further action.</i></p>	<p>We will review the year end reconciliation and substantively test a sample of transactions to ensure they have been accurately processed through the housing rents system.</p>

Financial Management

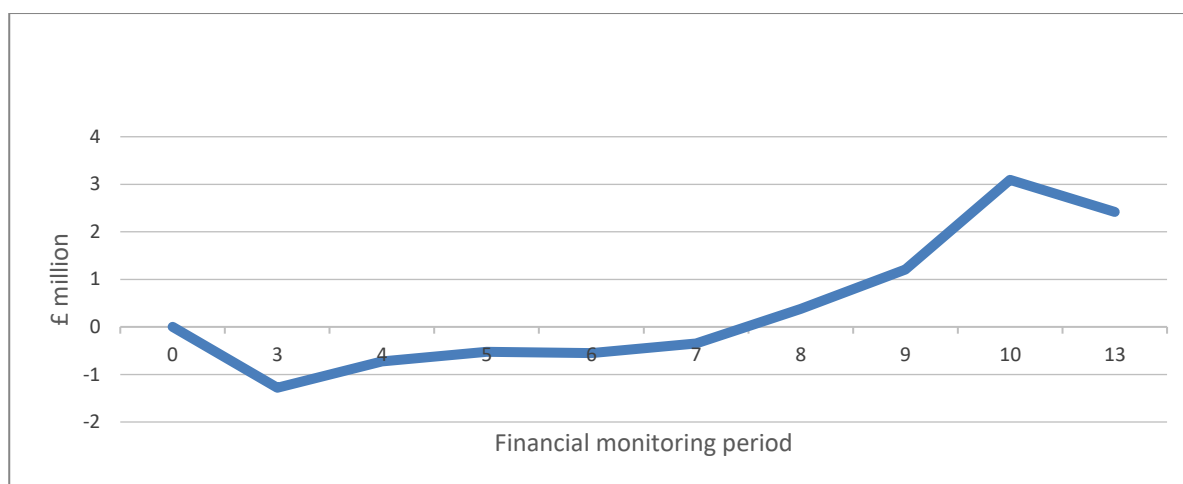
Additional costs as a result of Covid-19 led to a lower than expected surplus

15. The council effectively monitors the budget position through monthly budget monitoring reports to the Corporate Management Team, and quarterly reports taken to the Finance and Resources 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 2019/20 is included in [Exhibit 3](#).

16. 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.

Exhibit 3

Summary of outturn reporting of the projected year end surplus during 2019/20



Source: Financial monitoring reports

Most services achieved underspends in the year

17. The council's General Fund Revenue Budget as approved in February 2019 was revised to £766.5 million due to revised assumptions following additional Scottish Government funding (Finance Circular 2/2019). In May 2020 the council reported a provisional underspend against this budget of £2.4 million ([Exhibit 3](#)).

18. The council has incurred additional costs, in 2019/20, of just over £1 million as a result of the Covid-19 pandemic.

19. At a service level, Education and Families are reporting a provisional overspend of £0.5 million largely due to the additional costs of the Covid-19 Free School Meal voucher scheme (£0.6 million). The remaining services are reporting underspends or are on-budget with provisional outturns.

20. The expenditure from earmarked reserves is not included in the £2.4 million provisional outturn. These are monitored and reported separately. The financial statements at the year-end will include this expenditure and therefore this would produce a lower "in-year" surplus than the basis used for reporting in budget monitoring reports.

Governance and transparency

COVID-19 has impacted on the operation of the council's governance and services

21. On 19 March 2020 the council agreed revised governance arrangements that would be implemented in response to the COVID-19 pandemic. Shortly thereafter the country went into lockdown and the council's committee structure was suspended and the Chief Executive was granted temporary delegated authority for critical decisions that would normally require committee approval.

22. Council services have been significantly affected and all staff were asked to work from home where possible. Restricted services operated in areas such as household waste, housing repairs and registrations. Alternative arrangements were put in place to support those children currently in receipt of free school meals or accessing the councils Club 365 programme.

The council is taking appropriate steps to progress the January 2019 NFI matches

23. The National Fraud Initiative (NFI) in Scotland is a biennial 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 council received matches from the latest exercise in January 2019. The latest position for North Lanarkshire Council in progressing these is summarised in [Exhibit 4](#).

Exhibit 4

National Fraud Initiative

Total number of matches



16,059

Completed/closed investigations



10,474
(65%)

In progress investigations



322

Source: NFI website

24. 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 10,474 matches (65%). To date 643 cases have been concluded as fraud or error, with a cumulative value of £131,799. The majority of these related to blue badges not being returned and housing benefits and council tax reduction for which the council has plans in place to recover all overpayments.

25. The council has taken a risk-based approach to the investigation of matches rather than investigating them all. Significant progress has been made in investigations for this NFI cycle. Given the number of matches returned for the council this is considered appropriate.

26. Internal Audit take an active role in the exercise and continue to regularly report the outcomes of the NFI exercise to the Audit and Scrutiny Panel.

Equality arrangements

There are established equality arrangements in place

27. As outlined in our Annual Audit Plan we undertook Best Value work on equality arrangements in our 2019/20 audit work programme. The council recently refreshed their Equality Strategy outlining eight equality outcomes. Progress against these outcomes will be monitored using the Strategic Performance Framework approved at the Policy and Strategy committee in September 2019.

28. In line with the 2010 Act, the Council has developed an approach to mainstreaming equality, as outlined in the council's Equality Outcomes and Mainstreaming Report 2019. The report shows clear progress has been made against Equality Outcomes. Points to note include:

- A range of translation and interpretation services are available to support customers who contact the council, including British Sign Language (BSL). Documents which are published on the council website are available in alternative formats upon request. The council has a BSL Plan in place which was developed in collaboration with over 100 deaf and deafblind BSL users.
- Equality Impact Assessments (EIAs) were completed for savings proposals as part of the 2019/20 budget setting process and made publicly available on the council website. The assessments cover the nine protected characteristics prescribed in the 2010 Act, as well as embedding a human rights approach and rehabilitation of offenders.
- North Lanarkshire Council was the first local authority to achieve the Disability Confident Employer accreditation in 2017. During 2019 the council has improved its approach to recruitment by offering alternative application methods and a guaranteed interview to individuals who declare a disability and meet the minimum criteria.
- North Lanarkshire Council is a pilot authority for becoming accredited in a programme created by the Scottish Government and COSLA known as Equally Safe at Work. This is a programme looking at the gender pay gap within the authority, as well as organisational culture and the quality of leadership. Two staff surveys were conducted to gauge the opinions of staff in this area, and the programme of work underway for this accreditation is due to be completed in the next few months.
- Three LGBT youth groups have been established within the last year and have joined to form the North Lanarkshire LGBT Youth Network. In addition, the council's Education service has achieved the LGBT Foundation Chartermark accredited through LGBT Youth Scotland.

The council is a living wage employer

29. North Lanarkshire Council achieved Scottish Living Wage Employer status in 2017. The council recognised that some of their lowest paid staff fell below this rate and paid the difference as a supplement. The council's pay structure was reviewed in May 2019, consolidating the Living Wage requirements.

North Lanarkshire's overall pay gap is below the national average, but the gap has widened among teaching staff since 2017

30. The council has published employment data on its website which gives a snapshot of the council workforce as at February 2019. This shows that:

- The workforce is predominately female at 77.2%.
- 70% of council employees in the top 2% of earners are female.
- The gender pay gap for all employees including teachers is 4.6%, with females earning £0.69 less on average per hour than males. This is up slightly from 2017 when the gap was 4.4%, but still better than the Scottish median pay gap of 5.7%.
- The gender pay gap for teachers is 5.7% with females earning £1.20 less on average per hour than males. This has shifted since 2017 when the pay gap was 2.1% in favour of females.

31. This data gathering was completed before the council reviewed its pay structure to incorporate the Scottish Living Wage as described above. We would expect this to have a positive impact on the gender pay gap since more women will have benefitted.

Equality and diversity training is embedded within the council's induction process, but top-up training is not mandatory

32. Training modules are provided in-house and comprehensively cover equality and diversity issues such as gender-based violence and mental health awareness. The modules are reviewed on a regular basis and updated where necessary to reflect changes in legislation. However, beyond this the onus is on the individual's line manager to encourage them to complete training relevant to their role.

Public information on equality and diversity is comprehensive but not prominent on the council website

33. There is a dedicated section on the website for equality and diversity which includes such information as equality reports, how to access council services (if English is not an individual's first language), and support offered to individuals with a disability. However, this is contained within a sub-section of the main page and is difficult to find.

The council is clear on where further improvements are required

34. The 2019 Mainstreaming Equalities and Outcomes Report includes a next steps section which sets out where action is still needed:

- Disproportionately low employment rates for disabled people within mainstream employment.
- Disproportionately high exclusion and low attainment rates for ASN children and young people.
- Low numbers of BME individuals working in the council within the Modern Apprenticeship and Foundation Apprenticeship programmes.

Best Value Follow Up

35. Best Value is assessed over the five-year audit appointment, as part of the annual audit work. This year we followed up on the councils progress against the [Best Value Assurance Report](#) published in May 2019.

36. At its meeting in June 2019 the council agreed the recommendations within the Best Value Assurance Report and that a progress report would be provided to the Policy and Strategy committee later in 2019. Progress on the eight recommendations has been reported to the Policy and Strategy committee in September 2019 and March 2020. The recommendations have been mapped to the council's Programme of Work which underpins the overarching Plan for North Lanarkshire vision.

37. We have considered the council's progress against each recommendation in [Exhibit 5](#). We recognise that the COVID-19 pandemic has impacted progress in several areas.

Exhibit 5

Progress Update on Best Value Recommendations

BVAR Recommendation	Summary of progress
Revised strategies, policies and plans should be developed to deliver the programme of work that underpins the council's ambitious vision, based on its five priorities.	<p>This has been taken forward through the council's 'Strategic Policy Framework' and the timetable of review for policies and strategies. 31 strategies are included in the rolling programme of review. Progress reports highlight two areas of slippage in the timetable, these are the Workforce for the Future Strategy (this is being rolled into the ongoing Employability Review) and the Corporate Asset Management Plan, which is to be updated for Community hubs and office rationalisation.</p> <p>Good progress has been made.</p>
The council should implement the recently approved Performance Management Framework and reporting schedule to support the delivery of the Plan for North Lanarkshire and its scrutiny by members.	<p>Following approval of the 'Strategic Performance Framework', the reporting arrangements for this were approved by the Corporate Management Team in October 2019. Within the framework, there are different levels of indicators which have been mapped to the council's ambition statements and aligned to the 'Strategic Policy Framework' and Programme of Work.</p> <p>These frameworks and plans underpin the Plan for North Lanarkshire and therefore this alignment helps support the delivery of this. In-depth reviews have been carried out by Elected Members through the Audit and Scrutiny panel and other reports have been presented to service committees.</p> <p>Good progress has been made.</p>
Performance information on the council's website should be kept up-to-date to improve accountability to the public.	<p>The council is on course to launch a new website later in 2020 with all content being reviewed to determine if it is still relevant including performance pages. We found some performance sections of the website required updated information. Following our audit discussions, the performance information for a number of service areas were updated. Resources allocated to updating Local Government Benchmarking Framework data in April 2020 had to be redeployed to other work as a result of the COVID-19 pandemic.</p> <p>Limited progress has been made.</p>

BVAR Recommendation	Summary of progress
<p>The council should investigate and better understand the reasons for falling satisfaction levels within social care and whether they can apply learning from the high satisfaction levels in housing.</p>	<p>The Business Solutions team convened a 'short life task and finish group' to understand the specifics of this recommendation. This has highlighted the high levels of tenant participation and engagement in housing, which feeds service improvement.</p> <p>Part of the DigitalNL project is the creation of the Business Intelligence Hub, which includes functionality for analysis of feedback from employees and customers through a link to the customer service hub. The council plans to use the good practice identified in housing from the customer service hub in to develop business intelligence and apply this across the council.</p> <p>Reasonable progress has been made.</p>
<p>Workforce plans should be finalised to set out the current and future workforce requirements of the council and evidence how this supports other strategies.</p>	<p>A workshop session was held for the extended CMT which focused on two service areas; waste and adult social care. For each of these services this covered the work undertaken to develop plans, workforce profiles, service transformation and career development. The workforce plan for waste service was due to be presented to committee in cycle two of 2020. Plans for the remaining services are due to be presented to committees in September 2020.</p> <p>The council has developed a Workforce for the Future Strategy and an Employability Model which aims to contribute to the delivery of the strategy. There is a focus on the workforce of the council and of North Lanarkshire as a whole. The strategy is linked to the Plan for North Lanarkshire and has a plan for the year ahead and then 2020-23.</p> <p>Reasonable progress has been made.</p>
<p>The council should complete the Investors in People programme as planned and determine how it will maintain staff engagement.</p>	<p>There has been a rolling programme of Investors in People assessments across council services. Education and Families service is the latest to go through this process with the results presented to the CMT in March 2020. This completes the council wide roll out of the Investors in People accreditation.</p> <p>Improvement recommendations are provided for each assessment. The aim is to take these forward into a work plan and improve on accreditation levels.</p> <p>Good progress has been made.</p>
<p>The council and its partners should develop locality plans for the 16 planning priority areas.</p>	<p>In August 2019 the Corporate Management Team agreed that the development of the locality plans should be aligned with the nine town vision plans being developed as part of the Programme of Work for town centre and community regeneration.</p> <p>Per the Programme of Work for 2020 and Beyond, the locality plans are due to be completed and presented to the Community Empowerment Committee in late 2020.</p> <p>Good progress has been made.</p>
<p>Improvement plans arising from self-evaluation exercises should include measurable actions and clear deadlines.</p>	<p>As a result of the development of the 'Programme of Work for 2020 and Beyond', the Strategic Self-Evaluation programme was condensed into a 12-week exercise which was due to commence in Spring 2020.</p> <p>The progress of the exercise has been delayed due to the current working restrictions as a result of the COVID-19 pandemic.</p> <p>Limited progress has been made.</p>

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk