

# North Lanarkshire Council Report

## Audit and Scrutiny Panel

for approval for noting

Ref: KA/ASP/October20

Date: 29/10/2020

## External Audit: Annual Audit Report 2019-20

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### Executive Summary

The purpose of this report is to present to elected members the Annual Audit Report produced by the Council's appointed external auditors, Audit Scotland, in respect of the audit of the Council for the year-ending 31 March 2020.

A copy of the external auditor's Annual Audit report is attached to this report. Members should note that the report contains an action plan which includes audit recommendations and responses, including planned actions, which have been agreed by management.

The external auditor will speak to the Panel about the above audit output at the meeting and highlight to members the work undertaken and any issues arising from their work that they wish to bring to the Panel's attention.

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### Recommendations

The Panel is invited to:

- (a) consider and note the external auditors' annual audit report; and
- (b) agree to monitor, through reports from Internal Audit, implementation by management of actions agreed in response to external audit's recommendations.

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### The Plan for North Lanarkshire:

**Priority:** All priorities

**Ambition statement** All ambition statements

## 1. Background

- 1.1 The Accounts Commission have appointed Audit Scotland as the Council's appointed external auditor for the five year period from 2016-17. Expected outputs to be produced by the Council's external auditors are outlined each year in their annual planning document.
  - 1.2 The external auditor is required to annually prepare a report for members and the Controller of Audit summarising the audit work done and presenting the main findings arising from the audit. The report has been discussed and agreed with senior management.
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## 2. Report

- 2.1 The external auditor's report presents key matters arising from each of the main areas of work undertaken by the external auditor including the audit of the financial statements and issues relating to the Council's financial management, financial sustainability, governance and value for money arrangements.
  - 2.2 As outlined in the report, the external auditor is able to place an unqualified audit opinion on the 2019-20 financial statements. Although a small number of issues are highlighted by the external auditor where scope for further improvement exists, overall the report is considered by management to be positive in tone with no significant weaknesses identified.
  - 2.3 The Action Plan at Appendix 1 of the audit report contains a number of audit recommendations and management responses including planned actions, responsible officers and timescales. Progress implementing agreed actions will be monitored by Internal Audit and reported to future meetings of the Panel.
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## 3. Equality and Diversity

<b>Fairer Scotland</b>	No relevant issues or considerations identified
<b>Equality Impact Assessment</b>	Not required

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## 4. Implications

<b>Financial impact</b>	None identified
<b>HR/Policy/Legislative Impact</b>	None identified
<b>Environmental Impact</b>	None identified
<b>Risk impact</b>	None identified

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## 5. Measures of success

- 5.1 The Council is committed to delivering effective and efficient financial reporting and high standards of financial management and corporate governance which underpin the delivery of Council services and the achievement of planned outcomes and corporate priorities and ambitions.
  - 5.2 Both Internal and External Audit report to the Audit and Scrutiny Panel on their assessment of the adequacy and effectiveness of the Council's financial management and corporate governance arrangements.
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## 6. Supporting documents

**Appendix 1:** Audit Scotland Annual Audit Report 2019-20

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**Ken Adamson, Audit and Risk Manager**

# North Lanarkshire Council

2019/20 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

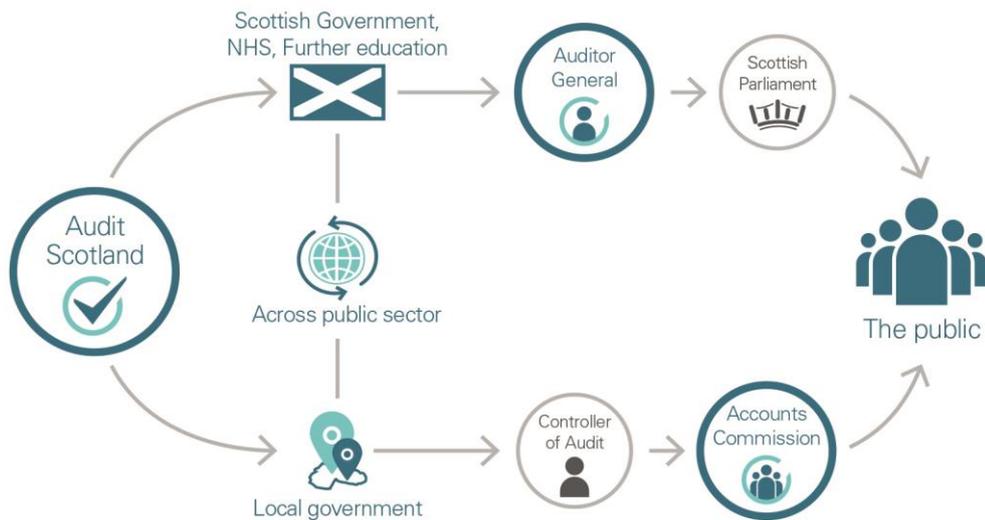
Prepared for the Members of North Lanarkshire Council and the Controller of Audit

October 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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# Key messages

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## 2019/20 annual accounts

- 1** Our audit opinions on the annual accounts of the Council, its group and the section 106 charities administered by the Council are unmodified.
- 2** An 'emphasis of matter' paragraph is included in the independent auditors' report to draw attention to the material uncertainty in property valuations caused by the Covid-19 pandemic.
- 3** The Council's pension liability has decreased by £14.6 million due to a recent UK Government proposal on the remedy to the discrimination case widely known as the McCloud case.

## Financial management and sustainability

- 4** Financial monitoring arrangements are good. The Council achieved an underspend of £2.4 million in 2019/20 despite additional costs as a result of Covid-19. The Council has a track record of delivering savings and has developed a three-year savings plan to provide more stability.
- 5** Covid-19 is expected to have significant financial impacts for the Council. Recent forecasts project a 2020/21 revenue deficit of £11.9 million. It is too early to know the impact for the Council's capital programme and community investment fund.
- 6** The Council has good medium-term financial plans based on a range of scenarios. This has recently been updated for the impact of Covid-19 and now projects an envisaged funding gap of £87 million from 2021/22 to 2025/26.

## Governance, transparency and Best Value

- 7** Overall governance arrangements are appropriate but have been impacted by the Covid-19 pandemic.
- 8** North Lanarkshire Council is making good progress in response to the May 2019 Best Value Assurance Report.
- 9** There are established equality arrangements and reporting in place.
- 10** Performance management arrangements have improved, but Covid-19 adversely impacted on public performance reporting.

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# Introduction

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**1.** This report summarises the findings from the 2019/20 audit of North Lanarkshire Council and its group. The scope of the audit was set out in our 2019/20 Annual Audit Plan which was presented to the Audit and Scrutiny Panel in December 2019. This report comprises the findings from:

- an audit of the annual accounts of the Council and its group and the statement of accounts of the section 106 charities administered by the Council including independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- audit work on the Council's equalities arrangements and progress in implementing the recommendations contained in our Best Value Assurance Report published in May 2019
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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**2.** After the publication of the Annual Audit Plan, in common with all public bodies, the Council has had to respond to the global coronavirus pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland's strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

## Adding 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
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements, and financial sustainability
- reporting our findings and conclusions in public and sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

4. We aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. North Lanarkshire 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. It 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. 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 during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also updates on progress with outstanding actions from last year.

## Auditor Independence

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 2019/20 audit fee of £514,090 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](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**Our audit opinions on the annual accounts of the Council, its group and the section 106 charities administered by the Council are unmodified.**

**An ‘emphasis of matter’ paragraph is included in the independent auditor’s report to draw attention to the material uncertainty in property valuations caused by the Covid-19 pandemic. We considered the significance of disclosures in other areas of uncertainty (including group bodies and pensions valuations) and concluded these were appropriate and the issues were less significant than the property valuation.**

**On 16 July 2020, the UK Government released a consultation document on the remedy to the issues identified by the McCloud case. The Council has included an adjustment of £14.6 million in the audited accounts, which reflects a more accurate assessment of the pension liabilities, in line with the proposed remedy.**

**We also noted some issues with the processes of accounting for non-current assets.**

**Covid-19 impacted on the audit and delayed reporting to the Audit and Scrutiny Panel.**

### Our audit opinions on the annual accounts are unmodified

**11.** The annual accounts for North Lanarkshire Council and its group for the year ended 31 March 2020 were approved by the Audit and Scrutiny Panel on 29 October 2020. We reported in the independent auditor’s report that the:

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

**The annual accounts are the principal means of accounting for the stewardship of resources and performance**

### The Council identifies uncertainty in property valuations due to COVID-19

**12.** The “Emphasis of Matter” section in our Independent Auditor’s Report refers to the disclosures in note 4 of the financial statements, which identify a material valuation uncertainty in respect of property valuations caused by the Covid-19 pandemic. Emphasis of Matter paragraphs are added to auditors’ reports where the auditor considers it necessary to draw user’s attention to matters which are fundamental to the understanding of the financial statements. Further information is contained in [Exhibit 3](#) below. The audit opinion is not modified in respect of this matter.

## **Covid-19 impacted on the audit of the annual accounts**

**13.** In March 2020, in response to the global Covid-19 pandemic, Scotland went into lockdown. Since then Audit Scotland and North Lanarkshire Council finance staff have been working from home and we have therefore had to adapt our 'normal' audit approach and work together to develop new ways to audit remotely.

**14.** The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the annual accounts. North Lanarkshire Council published the unaudited accounts on 30 June 2020 in accordance with the original timescale, however they were not formally considered by the Audit and Scrutiny Panel until the first virtual meeting on 3 September 2020.

**15.** Throughout the audit process there has been on-going discussions with council staff and their support enabled the audit to proceed, however the limitations of remote working did impact on our audit timetable and the audit took longer.

**16.** A special Audit and Scrutiny Panel was arranged for 29 October 2020 to approve the audited accounts for signing.

**17.** The working papers provided to support the unaudited accounts were of a good standard, however as we were unable to access council systems directly, we often had to rely more on council staff to obtain and present audit evidence. This was at a time when council staff were dealing with the significant additional pressures from Covid-19.

## **No objections were received on the annual accounts**

**18.** 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 2019/20 annual accounts.

## **Our audit opinions on Section 106 charities were unmodified**

**19.** 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.

**20.** We received the charities' accounts in line with the agreed timetable and after completing our audit we issued unmodified audit opinions on the 2019/20 statement of accounts of North Lanarkshire Council Educational Endowments and the JC McNaught Poor Children's Holiday Fund.

## **Whole of Government Accounts**

**21.** In accordance with the WGA guidance we intend to complete the required assurance statement and submit it to the National Audit Office by the extended deadline of 4 December 2020.

## **Our materiality levels are unchanged from our Annual Audit Plan**

**22.** 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.

**23.** 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	£14 million
Performance materiality	£7 million
Reporting threshold	£250,000

Source: Audit Scotland, Annual Audit Plan 2019/20

**24.** 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	£33,500	£20,000	£1,000
JC McNaught Poor Children's Holiday Fund	£72	£65	£4

Source: Audit Scotland, Annual Audit Plan 2019/20

## Audit work addressed the main risks of material misstatement

**25.** Our Annual Audit Plan detailed the risks of material misstatement identified for the annual accounts of North Lanarkshire Council, its group and the associated section 106 charities. We also highlighted any wider dimension audit risks identified. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. These risks, the work we undertook to address them and our conclusions from this work are detailed in [Appendix 2](#).

## We have a number of significant findings to report from the audit

**26.** 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 covering accounting policies, accounting estimates and financial statements disclosures. The significant findings from the audit of the annual report and accounts are summarised in [Exhibit 4](#).

## Exhibit 4

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Property valuations and Covid-19 uncertainty</b></p> <p>The Balance Sheet includes property, plant and equipment with a total value of £2,873 million. The Council has a five-year rolling valuation programme as detailed in Note 13.3. The asset valuer has not included a material uncertainty disclosure within the valuation report, however their valuation report only covers some specific asset categories, in accordance with the rolling programme and was conducted on 1 April 2019. We believe that, due to the impact of Covid-19 from mid-March 2020, there is a wider material uncertainty within the property valuation provided.</p> <p>The auditors of North Lanarkshire Properties (NLP) LLP have also included an ‘emphasis of matter’ paragraph in the independent auditor’s report of that body due to the material uncertainty in the investment property valuations. NLP LLP forms part of the Council’s group and is included in the group accounts.</p>	<p>Property assets are material and the impact of Covid-19 has increased the uncertainty over associated valuations. The extent and timing of the rolling programme of valuation work and the conclusions of the NLP LLP auditors have contributed to the view that less certainty can be attached to the valuation than would otherwise be the case.</p> <p><b>Conclusion:</b> The accounts disclose this increased uncertainty at Note 4 - Critical Judgements in Applying Accounting Policies and we have included an ‘emphasis of matter’ paragraph in our independent auditors’ report to draw attention to the matter.</p>
<p><b>2. Going concern of group bodies (Covid-19)</b></p> <p>The auditors of Mears Scotland LLP have included an ‘emphasis of matter’ paragraph in their independent auditors’ report to draw attention to the additional going concern uncertainty due to the financial impact of the Covid-19 pandemic. Mears Scotland LLP provides housing repair services to the Council and is consolidated as a joint venture in the group accounts.</p> <p>The auditors of other group bodies also discussed potential going concern issues during the audit process with us, but ultimately concluded that they did not have to draw attention to them in their reports.</p>	<p>The consolidation of Mears Scotland LLP does not have a material impact on the group financial statements, but the body provides important services to the Council, which are covered by appropriate business continuity arrangements.</p> <p><b>Conclusion:</b> The uncertainty is adequately disclosed in Note 5 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty and we determined the matter did not require an ‘emphasis of matter’ paragraph in our independent auditor’s report</p>
<p><b>3. Pension scheme property valuations (Covid-19)</b></p> <p>The IAS19 report received from the actuary, Hymans Robertson, provided the year end pension information for North Lanarkshire Council. No additional uncertainty was identified in the IAS19 report on the asset values. However, the unaudited accounts of Strathclyde Pension Fund include a Material Valuation Uncertainty note that covers the valuation of the Fund’s UK property portfolio, due to the unprecedented set of circumstances caused by the Covid-19 pandemic.</p>	<p>We considered the basis of IAS 19 reporting and the extent of level 3 investments held by Strathclyde Pension Fund (these are the hardest to value as they are not frequently traded and are valued subjectively rather than by reference to market prices). We also considered the normal valuation uncertainty and the relative share of this risk borne by North Lanarkshire.</p> <p><b>Conclusion:</b> The uncertainty is disclosed in Note 4 - Critical Judgements in Applying Accounting Policies and we determined that the matter did not require an ‘emphasis of matter’ paragraph in our independent auditor’s report.</p>

Issue	Resolution
<p><b>4. Pension valuations – McCloud liability revision</b></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.</p> <p>On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p> <p>Following this Hymans Robertson (actuary) contacted the Council to advise them that the proposed remedy indicated that the estimated liability included in the IAS19 report for 2019/20 should be reduced as the basis for determining who the remedy applied to was more onerous than the actuary's previous estimate.</p>	<p>The Council requested a revised valuation report from the actuary taking into account this remedy.</p> <p>The amendments resulted in a decrease of £14.6 million for the pension liability in the accounts.</p> <p><b>Conclusion:</b> The accounts now include the revised estimate for “McCloud”.</p>
<p><b>5. Non-current asset accounting</b></p> <p>Audit testing identified some minor issues with non-current asset accounting.</p> <p>Sampling identified £1.1 million of assets under construction that appeared to be specific to 2018/19. Further investigation established that most of these assets should have been transferred to other asset categories in 2019/20, as the assets were now complete or written off.</p> <p>A system error was also identified which affected the depreciation calculation for a small number of assets. Finance staff have investigated and discussed this with the software supplier. The overall net impact is not significant for the financial statements.</p> <p>We identified a £0.3 million understatement was identified in the asset register for the Strathclyde Watersport Centre which was revalued in year. This was a late adjustment by the valuer that was not identified during the accounts preparation process.</p>	<p><b>Conclusion:</b> The issues identified are immaterial for the account area and financial statements as a whole.</p> <p> Recommendation 1 (refer <a href="#">appendix 1</a>, action plan)</p>
<p><b>6. Prior year capital grant</b></p> <p>Sample testing of capital grants identified a £2 million Scottish Environment Protection Agency grant received in 2018/19 that is still unapplied that was incorrectly treated as a capital creditor rather than being recognised as a capital grant received in-year and transferred to the capital grants unapplied account (reserve).</p>	<p><b>Conclusion:</b> The financial statements have been adjusted to correctly account for this capital grant.</p>

## **Identified misstatements of £14.9 million were identified and we did not need to revise our audit approach further**

**27.** There was one material (by value) adjustment to the unaudited financial statements due to the requirement to revise the pension liabilities for the proposed remedy for the McCloud judgement detailed in Exhibit 4. One individual misstatement, relating to a £0.3 million revaluation adjustment, which exceeded our reporting threshold has not been amended in the audited annual accounts. It is our responsibility to request that all misstatements above the reporting threshold are corrected. We are content that the issues identified during the audit process were isolated and did not require us to revise our audit approach.

## **Prior year recommendations are being progressed**

**28.** 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

Financial monitoring arrangements are good. The Council achieved an underspend of £ 2.4 million in 2019/20 despite additional costs as a result of Covid-19. The Council has a track record of delivering savings and has developed a three-year savings plan to provide more stability.

A revised Integration Scheme with IJB and Health partners, was not fully implemented by the year end and further changes to budget reporting will be required in 2020/21.

It is too early to know the impact of Covid-19 on the Council's capital programme and the community investment fund.

Financial system controls generally operated effectively, but the Council still does not have a robust process to confirm staff on the payroll system.

### The 2019/20 general fund budget was £781 million and included planned savings of £28 million and £4.5 million of reserves

29. In February 2019 the Council approved a balanced revenue budget of £781 million which included the requirement to achieve savings of £28 million and the use of £4.5 million of reserves. Further budget revisions were made following receipt of additional Scottish Government funding (Finance Circular 2/2019).

### Financial monitoring arrangements are good

30. The Council monitors the budget position through monthly budget monitoring reports to the Corporate Management Team, and quarterly reports taken to the Finance and Resources Committee. Performance against budget for each service area is also reported to the relevant service committee.

31. Our review of budget monitoring reports concluded that they provided an overall picture of the budget position at service level; 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.

### The Council achieved an underspend of £2.4 million despite additional costs as a result of Covid-19

32. In May 2020 the Council reported an underspend against its budget of £2.4 million. The Council has incurred additional costs in 2019/20 of just over £1 million as a result of the Covid-19 pandemic. At a service level, Education and Families reported an 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 all either reported an underspend for the year or delivered on-budget. Details of how the year end outturn position developed throughout 2019/20 is included in [Exhibit 5](#).

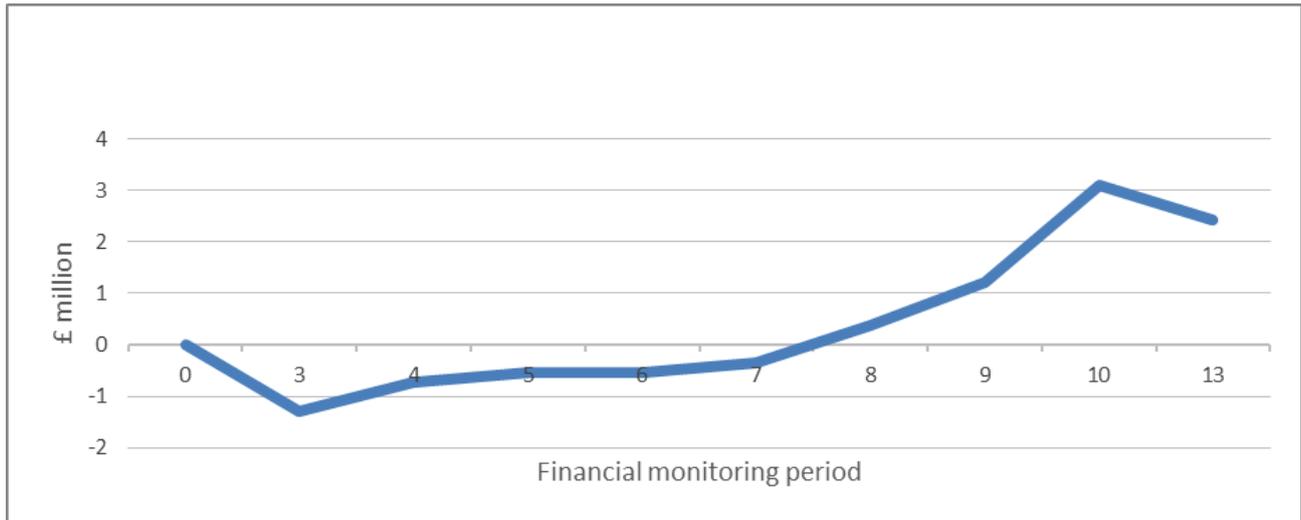
**Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively**

**33.** Expenditure from earmarked reserves is not included in the £2.4 million outturn. These are monitored and reported separately. The annual accounts show how the in-year underspend reconciles to the reserve position primarily due to the use of earmarked reserves, release from the insurance fund and draw down from the capital fund. There was also a one-off receipt from the dissolution of Town Centre Activities.

## Exhibit 5

### The year-end outturn projections through 2019/20

The eventual surplus developed through the year and was reported to committee



Source: North Lanarkshire Council 2019/20 Financial Monitoring Reports

### A revised Integration Scheme with IJB and Health partners was not fully implemented by the year end and further changes to budget reporting will be required

**34.** From 1 April 2019 some services were transferred back to the Council from North Lanarkshire Integration Joint Board (NLIJB). This included discretionary children, families and justice social work services, with a budget of £21 million.

**35.** Internal audit reviewed the revised arrangements and found that these were appropriate. However, internal audit also identified that the process of transferring remaining budgets (for those services with a cross-cutting function) was not completed by the year end.

**36.** There was mutual agreement between parties that the operational and financial risks of the discretionary services would be jointly managed until the transfer of responsibilities was concluded: over an 18-month period to September 2020. This included NLIJB retaining the budgets whilst the arrangements for the budget reporting of some of the more complex cross-cutting services was explored.



#### Recommendation 2

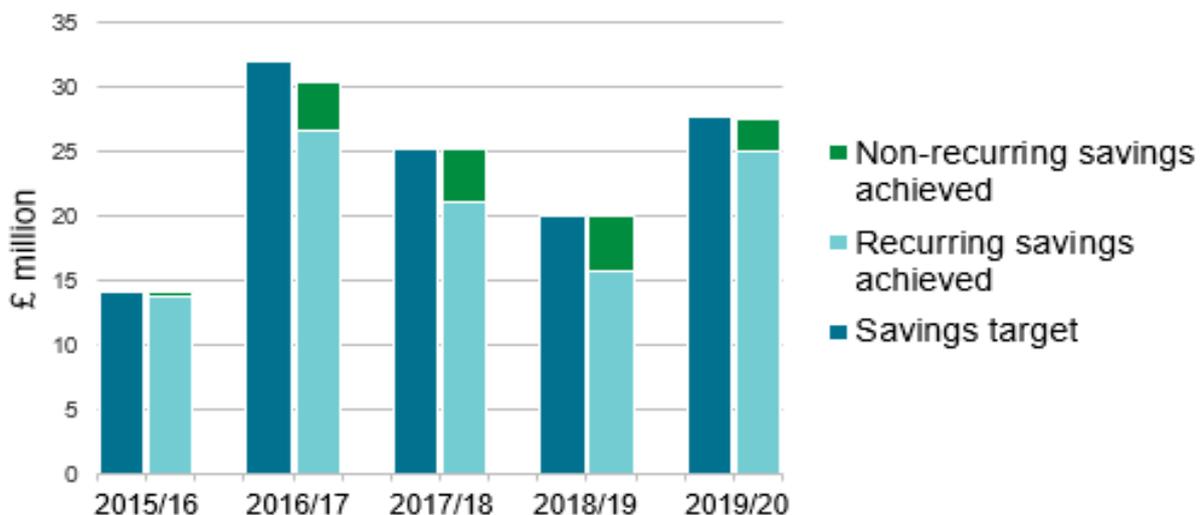
**The Council should continue to progress the transfer and reporting of the cross-cutting services for children, families and justice services from NLIJB.**

## The Council has a track record of delivering savings and has developed a three-year savings plan to provide more stability

**37.** In 2019/20, North Lanarkshire Council planned to achieve efficiency savings of £28 million to address the budgeted funding gap. The Council achieved £25 million (90 per cent) of these planned savings in-year. The shortfall was dealt with by in-year alternative savings, such as vacancy management and curtailment of spending, some of which was non-recurrent. There was a small balance (£0.2 million) that was not achieved in year.

**38.** As illustrated in [Exhibit 6](#), the Council has a successful track record of delivering savings, with total cumulative savings since 2015/16 of around £116 million with over £100 million on a recurring basis. As part of the 2020/21 budget setting process the Council agreed a three-year savings plan to support a more strategic approach.

### Exhibit 6 Savings – recurring and non-recurring



Source: North Lanarkshire Council's 2015/16 to 2019/20 Annual Accounts

## The housing revenue account balance increased to £14.1 million after rent increases designed to deliver an extensive regeneration strategy

**39.** The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to 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.

**40.** The budgeted net expenditure for the HRA in 2019/20 was £140 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 £67.43 in 2019/20 with a further five per cent increase for the next two years. The rent strategy was established following significant consultation by the tenant participation team as highlighted in our [Best Value Assurance Report](#).

**41.** The HRA achieved an overall surplus of £3.3 million and the HRA balance increased by £1.2 million to £14 million. This is to be carried forward for future years with over 80 per cent (£12 million) held for approved specific purposes in connection with its extensive regeneration strategy.

### **The capital programme is being reviewed due to Covid-19 and a revised 5-year programme to 2025/26 is now being developed**

**42.** 2019/20 was the second year of the Council's 5-year capital programme which was developed by the Strategic Capital Delivery Group (SCDG) and approved by the Policy and Resources Committee in March 2018. The 2019/20 General Fund Capital Investment programme was £70 million with a further £91 million investment programme for housing. The outturn was a £4.6 million underspend primarily due to delayed delivery of Regulatory Waste vehicles (£2.2 million) and works on car parks and play areas (£0.8 million).

**43.** In April 2020, following the national lockdown in response to the Covid-19 pandemic, the SCDG agreed to limit capital expenditure over the following three months to enable a clearer financial position to be established. In addition, SCDG agreed to review the essential capital investment requirements over the remainder of the 5-year capital programme. This review noted the additional uncertainty that now exists and the resource implications of responding to the opportunities presented by the Covid-19 lockdown in areas such as digitalisation and rationalisation of the estate. Current plans are that a revised 5-year capital programme will be developed for 2021/22 to 2025/26 and presented for committee approval in March 2021.

### **The impact of Covid-19 on the Council's plans for its Community Investment Fund are not yet known**

**44.** The June 2019 Policy and Strategy Committee approved the plans for the establishment of the Community Investment Fund to tackle the barriers to growth by focusing on the most deprived communities. The 2019/20 revenue budget included £0.7 million in revenue resources to support initial capital investment of £14 million. During 2019 the SCDG established a Community Investment Fund sub-group to consider and approve bids for funding. The 2020/21 revenue budget agreed that one per cent of council tax increases and projected council tax growth from new house building would be set aside for inclusion in the Community Investment Fund. The potential impact of Covid-19 on the Community Investment Fund is not yet known. The funding to support future investment has not yet been earned and is dependent on house building and the assumed growth in the Council's tax base. A review of the financial model for the Community Investment Fund is now underway.

### **Financial system controls generally operated effectively, but the Council still does not have a robust process to confirm staff on the payroll system**

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

**46.** Our findings were included in our management report that was presented to the Audit and Scrutiny Panel on 3 September 2020. We concluded that the key controls were generally operating effectively, however the Council has not yet implemented a robust payroll validation process to enable them to confirm the staff on the payroll system for all council services. To obtain the required audit assurances we revised our audit approach as detailed in our management report.



### Recommendation 3

**The Council should ensure that a robust payroll validation process is introduced across all services.**

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# Part 3

## Financial sustainability



### Main judgements

The net financial impact in 2020/21 of the Covid-19 pandemic has been assessed and could be significant with recent forecasts projecting a deficit of £11.9 million.

The Council has good medium-term financial plans based on a range of scenarios. This has recently been updated for the impact of Covid-19 and now projects an envisaged funding gap of £87 million from 2021/22 to 2025/26.

### The net financial impact in 2020/21 of the Covid-19 pandemic has been assessed and could be significant

**47.** In February 2020, the Council approved a 2020/21 revenue budget of £828 million, including a total savings target of £31 million and an increase in council tax of 4.84 percent. The 2020/21 budget initially included the use of £3 million of reserves temporarily until the identified savings could be achieved in 2021/22, however a further funding announcement allowed this to be reversed. All planned savings included within the budget are recurring in nature.

**48.** In June 2019 the Policy and Strategy Committee approved the Revenue Resources Budget Strategy outlining the key principles that would be applied to support a more strategic approach to establishing budgets and associated savings options. An update on progress in implementing the approved Strategy was provided in June 2020 along with the high-level challenges now being faced due to the Covid-19 pandemic.

**49.** A revised financial forecast for 2020/21 was presented to the Council meeting on 13 August 2020 which projected a deficit of £22 million due to the additional costs incurred in responding to and recovering from the Covid-19 pandemic. This was updated verbally to the committee as the projected deficit at that point had reduced to £18 million. The most recent forecast for October shows that the 2020/21 deficit has now been reduced to £11.9 million. These forecasts take account of known additional funding from the Scottish Government and highlight the current complexity and ongoing change linked to government guidance and decisions on future funding. Based on the Council's reserves position, detailed in [paragraph 51](#), an overspend of this size would eliminate the contingency and have a significant impact on the change management fund.

**50.** The report notes the limited timescales available to identify and implement the required actions and recommends the establishment of a cross-party group to agree mitigating actions.

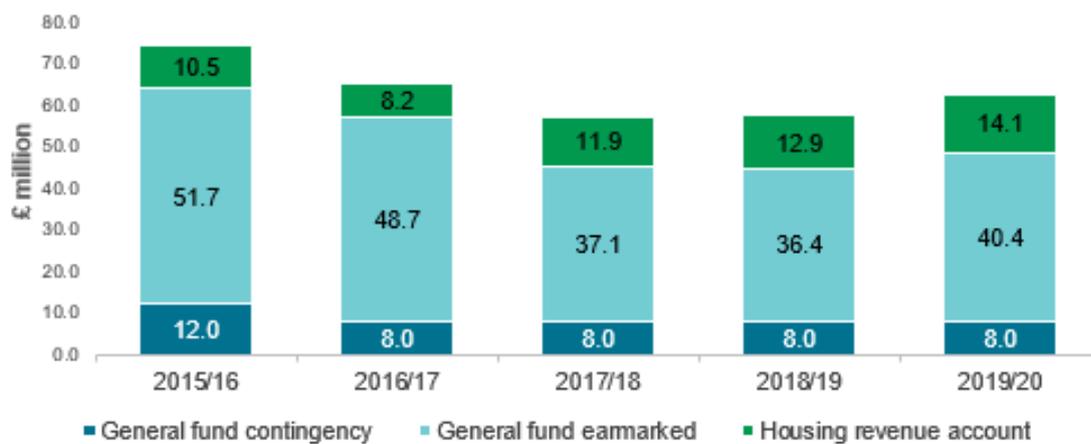
**Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered**



## The general fund reserve has increased to over £62 million, but most of this is earmarked for specific purposes

**51.** One of the key measures of the financial health of a council is the level of reserves held. The general fund is the largest usable reserve and is used to support the delivery of services. The general fund balance has increased from £57 million in 2018/19 to £62 million in 2019/20. This includes the HRA balance of £14 million and £40 million of earmarked reserves for areas such as early years and childcare expansion (£6 million) and digitalisation (£6 million). It also includes the £6.6 million set aside to support the one-off costs associated with the 2020/21 budget as detailed in [paragraph 47](#). The unearmarked general fund balance, known as the contingency, remains at £8 million (1 percent of net budget) to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. [Exhibit 7](#) provides an analysis of the general fund over the last five years.

### Exhibit 7 Analysis of general fund balance



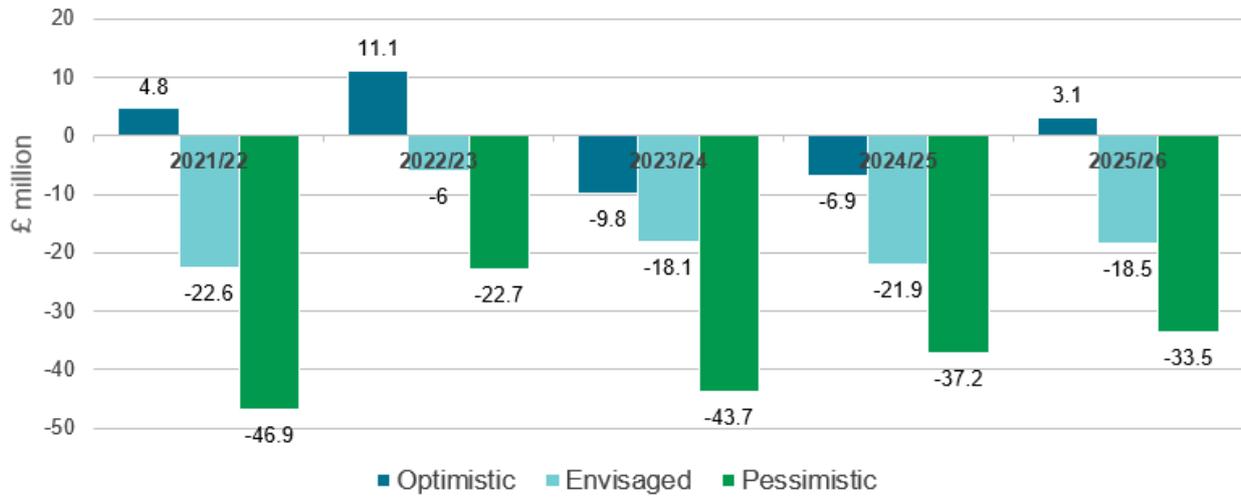
Source: North Lanarkshire Council's 2015/16 to 2019/20 Annual Accounts

## The Council has a good medium-term financial plan, with an envisaged funding gap of £87 million from 2021/22 to 2025/26

**52.** In September 2020 the Policy and Strategy Committee considered the revised Medium-Term Financial Plan 2021/22 to 2025/26. The plan recognises the additional challenges the Council now faces due to the implications of the Covid-19 pandemic and updates the previous assumptions to reflect this new environment. The plan includes a range of risk-based outcomes / assumptions which are presented over three scenarios; optimistic, envisaged and pessimistic as shown in [Exhibit 8](#).

**53.** The Council's financial projections to 2025/26 forecast an envisaged funding gap of £87 million over the next five years, not including the current projected deficit for 2020/21 of £22 million detailed in [paragraph 45](#). The £87 million funding gap assumes the achievement of savings targets already identified as part of the 2020/21 budget setting process (£11.8 million in 2021/22 and £15.8 million in 2022/23).

## Exhibit 8 Identified funding gaps 2020/21 – 2025/26



Source: North Lanarkshire Council 5-year Medium-Term Financial Plan 2021/22 to 2025/26

# Part 4

## Governance and transparency



### Main Judgements

**Overall governance arrangements are appropriate, but have been impacted by the Covid-19 pandemic.**

**Culture, sport and leisure services are being insourced following governance issues.**

### Overall governance arrangements are appropriate, but have been impacted by the Covid-19 pandemic

**54.** As part of our audit process we are continually assessing the governance arrangements with North Lanarkshire Council. Up until March 2020, our previous year's conclusion was still relevant: that appropriate governance arrangements are in place to support decision making.

**55.** 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 with the Chief Executive being granted temporary delegated authority for critical decisions that would normally require committee approval.

**56.** 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 in receipt of free school meals or accessing the Council's Club 365 programme.

**57.** On 13 August 2020 the Council met remotely for the first time. At this meeting members were presented with a summary list of the decision taken by the Chief Executive under delegated authority while the committees were suspended. They also approved an amendment to the standing orders to permit future Council and committee meetings to meet remotely.

**58.** Covid-19 has exacerbated many pre-existing risks and challenges facing public bodies in areas such as financial sustainability and service demand pressures. We recognise that audit committees have a crucial role to play in providing effective scrutiny and challenge as they help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements. As public bodies manage their business during this global pandemic, the role of audit committees becomes even more important. We recently issued a [Guide for audit and risk committees](#) which draws on our recent experience of auditing public bodies during this pandemic.

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

## **The Council is open and transparent in the way it conducts its business**

**59.** Prior to March 2020 members of the public were able to attend Council and other committee meetings as well as accessing agendas, papers and minutes on the Council's website. The move to remote committee meetings has restricted direct attendance however even during lockdown, when the Chief Executive was making decisions under delegated authority, the relevant papers were still available on the website to support transparency.

**60.** The Council's website also allows the public to access a wide range of information including current service updates and restrictions due to Covid-19, advice for individuals and businesses and how to contact the Council or make a complaint. The Council also makes the register of members' interests and the annual accounts available on the website.

## **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**61.** The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**62.** The codes of conduct are readily available and include references and links to other key policies including the whistleblowing policy and anti-fraud policy. In recent years we also conducted a web-based survey, Your Reputation @ Risk, which found high levels of awareness of the code of conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. We are not aware of any specific issues that we need to bring to your attention.

## **The Council has taken appropriate steps to progress the January 2019 NFI matches**

**63.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Our management report reported significant and appropriate progress had been made in investigations for this NFI cycle.

## **Arrangements for preventing fraud and corruption in the procurement function are appropriate**

**64.** Across public sector bodies instances of fraud and corruption can be particularly prevalent within procurement and contract management. Our 2019/20 planning guidance identified this as an area of focus, and we carried out an initial assessment of the arrangements in place at the Council. We concluded that, following some historical issues, the Council had taken appropriate action including changing the staff structure, refreshing training and improving reporting arrangements to ensure individual accountability. There are appropriate processes now in place to mitigate the risk of fraud and corruption.

## **Culture, sport and leisure services are being insourced following governance issues in CLNL**

**65.** Culture and Leisure NL (CLNL) Limited was officially formed in June 2019 as a result of the merger of the Councils two "arms length external organisations" (ALEOs): Culture NL Limited and North Lanarkshire Leisure Limited. Governance issues were identified within the newly merged body and, following a number of resignations, the Council decided to remove the independent Board members. The Council communicated these decisions to the Office of the Scottish Charity Regulator (OSCR).

**66.** At the January 2020 Policy and Strategy Committee the Council approved the insourcing of the delivery of Culture, Sport and Leisure services currently provided by CLNL Limited. The decision followed an ALEO service review and a requirement for the CLNL strategy to be aligned more closely with The Plan for North Lanarkshire.

**67.** A report was presented to the Policy and Strategy Committee in March 2020 setting out the indicative process, timeline and actions for bringing these services in-house on 1 April 2021. The Council has established a working group comprising senior finance officers from both the Council and CLNL Limited to consider the implications for financial administration, including financial systems and financial governance. Work was also underway to understand the financial implications of the in-sourcing, in terms of including the services in financial planning going forward.

# Part 5

## Best Value



### Main judgements

**North Lanarkshire Council is making good progress in response to the May 2019 Best Value Assurance Report.**

**The Council has established equality arrangements and reporting in place.**

**Performance management arrangements have improved, but Covid-19 adversely impacted on public performance reporting.**

### North Lanarkshire Council is making good progress in response to the May 2019 Best Value Assurance Report

**68.** Best value is assessed over the 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 period. This year's Best Value audit work included following up the progress made by North Lanarkshire Council in response to the [BVAR](#) published in May 2019 and undertaking a review of Equality arrangements.

**69.** At its meeting in June 2019, the Council agreed the recommendations within the BVAR. 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 vision in the Plan for North Lanarkshire.

**70.** We have considered the Council's progress against each recommendation in [Exhibit 9](#). We recognise that the Covid-19 pandemic has impacted on several areas, however progress has been made across all recommendations. In particular, good progress has been made in revising strategies, policies and plans to deliver the programme of work and in completing the Investors in People programme.

**Best Value is concerned with using resources effectively and continually improving services**

### Exhibit 9

#### Progress 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 areas of slippage in the timetable such as the Corporate Asset Management Plan, which is to be updated for Community hubs and office rationalisation.</p> <p><b>Good progress has been made.</b></p>

BVAR Recommendation	Summary of progress
<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>	<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><b>Good progress has been made.</b></p>
<p>Performance information on the Council's website should be kept up-to-date to improve accountability to the public.</p>	<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 lacked updated information. Following our audit discussions, the performance information for some 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><b>Limited progress has been made due to Covid-19.</b></p>
<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 Digital NL 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 to develop business intelligence and apply this across the Council.</p> <p><b>Reasonable progress has been made.</b></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><b>Reasonable progress has been made.</b></p>

BVAR Recommendation	Summary of progress
<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><b>Good progress has been made.</b></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><b>Good progress has been made.</b></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><b>Limited progress has been made due to Covid-19.</b></p>

Source: Audit Scotland

## The Council has established equality arrangements and reporting in place

**71.** During 2019/20 we undertook Best Value work on the equality arrangements of North Lanarkshire Council and reported this in our management letter. The Council recently refreshed their Equality Strategy outlining eight outcomes and progress will be monitored using the Strategic Performance Framework approved at the Policy and Strategy committee in September 2019.

**72.** In line with the 2010 Act, the Council has developed an approach to mainstreaming equality, as outlined in the [Equality Outcomes and Mainstreaming Report 2019](#). The report shows clear progress has been made against Equality Outcomes and includes a next steps section which sets out where action is still needed.

## Performance management arrangements have improved, but Covid-19 adversely impacted on public performance reporting

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

**74.** The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

**75.** The Council's performance management arrangements were considered in our BVAR issued in May 2019. We recognised that performance reporting had improved in recent years, but that the information on the Council's website was not up to date. From our follow-up work, we found that the Council has implemented the Performance Management Framework and reporting arrangements to support this Framework. These are aligned to the Plan for North Lanarkshire and therefore support its delivery.

**76.** At the time of completing our Best Value Follow-up work, some elements of performance information were still not up-to-date on the Council's website. This is because resources had been diverted to other council services as a result of the Covid-19 pandemic and the publication of information had been adversely affected.

**77.** The emergence of Covid-19 has had a significant impact on performance measures overall. A significant proportion of performance measures relate to services which have been temporarily suspended, are operating at a reduced level or which have had to adapt to new ways of working. The Council has identified a sub-set of indicators from the Strategic Performance Framework which are considered relevant for monitoring during the current time. These include measures for services which are experiencing a higher demand or where the service is expected to be adversely affected, for example council tax collection.

**78.** One of the recommendations from the BVAR was to make improvement plans, that emerge from self-evaluation exercises, measurable with clear deadlines. A twelve week self-evaluation programme has been delayed as a result of Covid-19 and therefore we are not able to review the improvement plans which would have been produced from this.

**79.** Prior to Covid-19, the Council was working on a programme of engagement through NL Connect. This is available through the council's website where individuals can sign-up to share their opinions and views on council services, for example through surveys. The first output from this was published on the council's website before Covid-19. It is too early to conclude on the success of NL Connect for engaging with its communities, but progress has been made in developing this tool and making it accessible to communities.

### **National performance audit reports are routinely considered by the Audit and Scrutiny Panel**

**80.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published reports which may be of interest to the Council. These are outlined in [Appendix 3](#).

**81.** 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 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Non-current asset accounting</b></p> <p>Audit testing identified a number of assets under construction that should have been transferred or written off. Minor system issues with depreciation calculations were also identified.</p> <p><b>Assets are incorrectly classified and accounting for within the financial statements.</b></p>	<p>The assets under construction listings should be reviewed with a focus on any that contain details that indicate they should now be removed (e.g. previous years).</p> <p>The Council should continue to work with the software provider to address the depreciation calculation issues identified.</p> <p><a href="#">Exhibit 4, point 5</a></p>	<p>A comprehensive review of the fixed asset register is currently being undertaken to:</p> <ul style="list-style-type: none"> <li>• identify any other assets under construction which may require to be removed; and</li> <li>• identify any other assets with depreciation calculation system issues. It is not expected to relate to a significant number of assets.</li> </ul> <p>Responsible officer: Elaine Kemp Agreed date: December 2020</p>
2	<p><b>Completion of transfer of cross-cutting services</b></p> <p>The discretionary children, families and justice social work services have transferred back to the council from NLIJB, however the transfer of budgets for cross-cutting services has not yet been concluded.</p> <p><b>Budgets are not correctly identified and transferred resulting in inaccuracies in financial reporting.</b></p>	<p>The council should complete the transfer of the cross-cutting services for children, families and justice services from NLIJB.</p> <p><a href="#">Paragraph 36</a></p>	<p>Budget transfers have been reflected in the financial ledger prior to the first financial reporting cycle of the financial year 2020/21.</p> <p>Responsible officer: Elaine Kemp Agreed date: Complete</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Internal controls</b></p> <p>There is a lack of a robust payroll validation exercise to provide assurance over the staff costs incurred by services.</p> <p><b>There is a risk that payroll information is inaccurate and not identified by service departments resulting in incorrect payments.</b></p>	<p>A robust payroll validation process should be introduced across all services.</p> <p><a href="#">Paragraph 46</a></p>	<p>A positive validation exercise for the whole Council is currently underway, starting with Education and Families.</p> <p>Although this comprehensive exercise is not yet complete, a number of other relevant detective controls are already in place. These include earnings and overtime reports which are presented to managers prior to each payrun for checking. Additionally, monthly sample checks are done by HR Operations on all employee changes.</p> <p>Responsible officer: Jennifer Hardy</p> <p>Agreed date: March 2021</p>

### Follow up of prior year recommendations

b/f 1	Remuneration report	<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><b>Complete</b></p> <p>Minor issues identified from the audit however the process for completion has improved.</p>
b/f 2	Internal controls	<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><b>In progress</b></p> <p>Although the key controls are generally operating effectively, the council has not yet implemented a robust payroll validation process to all council services.</p> <p><b>Recommendation 3</b></p>
b/f 3	Long term financial planning	<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><b>Outstanding</b></p> <p>Given the additional pressures from the Covid-19 pandemic there are no plans to develop financial planning beyond the current 5-year timeline. This is a reasonable approach.</p> <p><b>No recommendation for 2019/20 given current restrictions and pressures</b></p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 4	Overpayment of redundancy	All exit payments should be subject to independent review to ensure they are accurate before being processed.	<p><b>Complete</b></p> <p>No issues identified from the audit testing undertaken.</p>
b/f 5	Inconsistent documentation of exit payments	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><b>Complete</b></p> <p>Documentation has improved, but could be further enhanced with the inclusion of a sign off from finance.</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 to our wider responsibilities under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk 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"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Identification and evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues within our work on journals. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><b>Conclusion</b> – No issues were identified that indicate management override of controls.</p>
<p><b>2 Risk of fraud in income recognition</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. North Lanarkshire Council receives a significant amount of income from several sources including fees and charges. The extent and complexity of income means that there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>Testing the operation of key controls over council tax, NDR and housing rent income.</li> <li>Reliance on the work of internal audit on key controls for income and cash collection.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of income controls and transactions. We revised our audit approach as we could not place formal reliance on internal audit due to Covid-19 restrictions.</p> <p><b>Conclusion</b> – No fraud issues were identified.</p>
<p><b>3 Risk of fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in 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"> <li>Detailed testing of expenditure focusing on the areas of greatest risk, such as grant awards.</li> <li>Testing the operation of controls over social care payments.</li> <li>Reliance on the work of internal audit on key controls for housing benefits.</li> </ul>	<p><b>Results</b> – We did not identify any significant issues from our testing of expenditures controls and transactions, although we reported specific areas where controls could be strengthened. We revised our audit approach as we could not place formal reliance on internal audit due to the Covid-19 restrictions.</p> <p><b>Conclusion</b> – No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 Risk of incorrect disclosures within the remuneration report</b></p> <p>Prior year audit testing identified a number of disclosures within the remuneration report that had to be amended. Specific issues were also identified with the governance arrangements for exit packages and an incident of an overpayment due to the lack of second officer checks prior to payments being made.</p>	<ul style="list-style-type: none"> <li>• Verification of all remuneration report disclosures to supporting evidence.</li> <li>• Detailed testing of exit packages to ensure these are correctly accounted for and disclosed in the annual accounts.</li> </ul>	<p><b>Results:</b> Audit testing of the remuneration report confirmed that improvements had been made to the accuracy of the disclosures.</p> <p><b>Conclusion:</b> A small number of issues were still identified, and these have been amended in the audited accounts.</p>
<p><b>5 Risk of error in areas of estimation and judgement</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets, pensions, accruals and provisions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p>	<ul style="list-style-type: none"> <li>• Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</li> <li>• Review appropriateness of actuarial assumptions and results including comparison with other councils.</li> <li>• Establish officer's arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</li> <li>• Review actual experience of significant estimates made in the prior year.</li> </ul>	<p><b>Results:</b> Estimations and judgements within the annual accounts were based on the most recent information.</p> <p>The additional uncertainty caused by the Covid-19 pandemic has been adequately disclosed within the accounts.</p> <p>The pensions valuation has been revised following proposed remedy proposals to the issues raised by the McCloud case, that emerged after 31 March 2020</p> <p><b>Conclusion:</b> An 'emphasis of matter' paragraph has been included in the independent auditor's report to draw attention to the additional uncertainty in property valuations.</p>
<p><b>6 Risk of inaccurate accounting for group entities</b></p> <p>North Lanarkshire Council has a complex group with planned changes to the structure during 2019/20. Prior year audit work also identified a potential issue with the recognition of joint venture net liabilities which requires further investigation. The extent of complexity within the group structure increases the risk that the accounting treatment is not correctly captured and processed.</p>	<ul style="list-style-type: none"> <li>• Assessment of the group boundary and structure changes within the year.</li> <li>• Review the accuracy and completeness of the consolidation process including intra-group transactions.</li> <li>• Receipt of completed component audit questionnaires and, where appropriate, meetings with the auditors of material components.</li> </ul>	<p><b>Results:</b> The prior year issue has been resolved with the associated liability no longer included in the accounts. Changes to the group structure during the year were correctly accounted for.</p> <p>The additional uncertainty caused by the Covid-19 pandemic has been adequately disclosed within the accounts.</p> <p><b>Conclusion:</b> No issues were identified with the accounting for group entities.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>7 Risk of incorrect classification due to change in council structure</b></p> <p>Due to the council restructuring the Comprehensive Income and Expenditure Statement will be restated to comply with the requirement to reflect internal reporting arrangements. There is a risk that income and expenditure is not correctly categorised resulting in inaccurate disclosures within the annual accounts.</p>	<ul style="list-style-type: none"> <li>• Prior year restatement will be subject to early audit review prior to preparation of the unaudited accounts.</li> <li>• Disclosures in the annual accounts will be assessed against internal reporting to ensure consistency.</li> </ul>	<p><b>Results:</b> We did not identify any significant issues from our review of the restatement of the Comprehensive Income and Expenditure Statement.</p> <p><b>Conclusion:</b> The restatement has been correctly processed and disclosed.</p>

### Risks identified from the auditor's wider responsibilities under the Code of Audit Practice

<p><b>8 Introduction of IFRS 16 Leases</b></p> <p>The implementation of IFRS 16 Leases for 2020/21 is expected to have a significant impact for the council. Early work is required to assess the practical implications and ensure arrangements are in place to support full adoption. The changes may also impact on the council's capital financing arrangements.</p>	<ul style="list-style-type: none"> <li>• Ongoing engagement to assess preparation for the implementation of IFRS 16 Leases.</li> <li>• Consideration of opening balance sheet calculations.</li> </ul>	<p><b>Results:</b> At its meeting on 27 March 2020 CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases until 2021/22.</p> <p><b>Conclusion:</b> Due to the deferral there was no impact on the 2019/20 annual accounts with the decision correctly detailed in Note 3 to the accounts.</p>
<p><b>9 Weaknesses in control environment</b></p> <p>In 2018/19 our audit work identified control weaknesses across a few systems, but the lack of payroll validation is a concern given the extent of expenditure incurred on staff costs. There is a risk that payroll information is inaccurate and not identified by service departments resulting in incorrect payments.</p>	<ul style="list-style-type: none"> <li>• Reliance on the work of internal audit on key controls within payroll/HR associated with the recruitment of employees and the maintenance of the council's establishment structure.</li> <li>• Detailed testing of changes in staff costs (new starts, leavers, promotions, etc....) to ensure accurately processed.</li> </ul>	<p><b>Results</b> – Our work confirmed that payroll validation controls are not yet operating as expected, however increased substantive testing of staff costs did not identify any issues. We revised our audit approach as we could not place formal reliance on internal audit due to the Covid-19 restrictions.</p> <p><b>Conclusion</b> – Assurance obtained from substantive procedures to support the audit opinion.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>10 Risk of financial sustainability</b></p> <p>The council has strong financial management which enables it to operate with a relatively low reserves position, however recent financial monitoring reports forecast a year end deficit for the council. The medium term financial plan highlights that significant savings will need to be achieved to address funding gaps. There is a risk to long term financial sustainability and the delivery of The Plan for North Lanarkshire.</p>	<ul style="list-style-type: none"> <li>Review the development of a 3 year budget process and reserves strategy.</li> <li>Consider the 2020/21 revenue budget and required savings target.</li> <li>Review the financial monitoring during the year, including the use of reserves and delivery of planned savings.</li> </ul>	<p><b>Results:</b> The Council's usable reserves have increased despite additional costs in 20/21 due to Covid-19, however from recent revised financial reporting the outlook is challenging.</p> <p><b>Conclusion:</b> The Council has good medium-term financial plans in place that reflects the impact of Covid-19 and is taking a more strategic approach to identifying future savings plans.</p>
<p><b>11 Changes to governance arrangements</b></p> <p>There has been some recent changes to the governance structure and delivery arrangements for the council's Arms Length External Organisations (ALEOs). There is a risk that the changes impact on the operation of the ALEOs and the robustness of the governance arrangements in place.</p>	<ul style="list-style-type: none"> <li>Review the governance arrangements for ALEOs.</li> <li>Receipt of completed component audit questionnaires and, where appropriate, meetings with the auditors of material components.</li> </ul>	<p><b>Results:</b> Further changes to arrangements from ALEOs were agreed during the year including the insourcing of culture, sport and leisure services. Component audit questionnaires did not identify any other issues with governance arrangements.</p> <p><b>Conclusion:</b> The governance arrangements are appropriate.</p>

# Appendix 3

## Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

# North Lanarkshire Council

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