

# North Lanarkshire Council

## Report

### Audit and Scrutiny Panel

for approval  for noting

Ref: KA/ASP/June21

Date: 30/06/2021

### External Audit: Audit Scotland Management Report

**From** Audit and Risk Manager

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#### Executive Summary

The purpose of this report is to present elected members with the audit output produced by the Council's appointed external auditors, Audit Scotland, since the last meeting of the Panel in respect of the audit of the Council for the year-ending 31 March 2021

A copy of the external auditor's interim management report is attached to this report. Members should note that the report includes audit findings and responses, including planned actions that 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 any issues arising from their work that they wish to bring to the Panel's attention.

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#### Recommendations

The Panel is asked to note the report and to invite the external auditor to speak to their report.

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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.
  - 1.2 The areas to be examined and expected outputs to be produced by the Council's external auditors are outlined each year in their annual planning document, which for the 2020-21 audit was presented to the Panel in March 2021.
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## 2. Report

- 2.1 Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within an audited body to allow them to plan the audit and develop an effective financial statements audit approach.
  - 2.2 The attached external audit interim report presents the results of work undertaken by Audit Scotland on the Council's key accounting and financial systems as well as work to date on those wider audit dimensions covered by the public sector audit model. A further report, addressing all relevant audit issues arising from the annual audit, will be presented to the Panel in late-September.
  - 2.3 Members should note that the report contains audit findings and responses, including any planned actions that have been agreed by management.
  - 2.4 The external auditor will speak to the Panel about the above audit output at the meeting and highlight to members any issues arising from their work that they wish to bring to the Panel's attention.
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## 3 Public Sector Equality Duty and Fairer Scotland Duty

### Fairer Scotland Duty

There is no requirement to carry out a Fairer Scotland assessment in this instance.

### Equality Impact Assessment

There is no requirement to carry out an equality impact assessment in this instance.

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## 4. Impact

<b>Financial impact</b>	None identified
<b>HR policy/Legislative impact</b>	None identified
<b>Technology / Digital impact</b>	None identified
<b>Environmental impact</b>	None identified
<b>Communications 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.
  - 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 Management Report.



**Ken Adamson, Audit and Risk Manager**

# North Lanarkshire Council

Management Report 2020/21



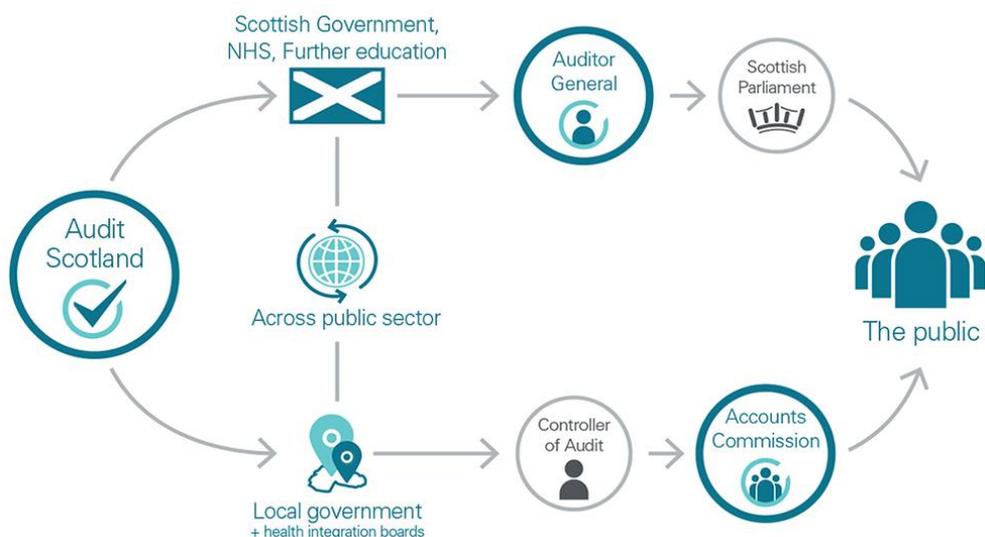
 AUDIT SCOTLAND

Prepared for North Lanarkshire Council  
June 2021

## 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

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## 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.

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## 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.

## Conclusion

**5.** 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.

**6.** 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.

**7.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

## Internal control systems and action plan

**9.** In accordance with *ISA 330: the auditor's response to assessed risk*, our 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.

**10.** Our 2020/21 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 for non-domestic rates and council tax. 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**

**11.** 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*.

12. Our 2019/20 audit highlighted the introduction of the OpenPortal system for council tax, business rates and benefits. Initially the uptake for the system was higher than anticipated and had an impact on council resources, as each new registration requires a full check on personal details. Since its implementation, only a small proportion of council tax accounts have signed up for e-billing (7,800 out of 150,000). The council had planned to use resources to advertise the system, however as a result of Covid-19 these resources were diverted to maintaining core services. The council intends to increase the take up of e-billing and accelerate customers making use of the OpenPortal system.

13. In 2020/21 the council received and administered significant funding to support individuals and businesses impacted by the Covid-19 pandemic. We are also carrying out a review of the controls put in place by the council to administer the most significant Covid-19 grants and carrying out testing to confirm the existence and operation of these controls. This work is nearing completion and we will report on this in our Annual Audit Report.

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 2020/21

Audit Finding	Management response	Additional procedures
<p><b>1 User access</b></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, these reviews did not take place in 2020/21. However, Internal Audit's review of general ledger controls found the documentation for the e-Financials review to be incomplete and an exercise is underway to follow up on any documentation outstanding. We also note that for the iTrent system there was a review of dormant users during the year.</p> <p><b>There is a risk that individuals may have inappropriate access to systems.</b></p>	<p><i>The Revenues and Benefits bi-annual User Review was delayed due to the impact of Covid 19 on Service Delivery. The potential increased risk of inappropriate access was for a limited period only with the full User Review programme re-initiated in May 2021 with the overall process due to be fully completed by quarter three.</i></p> <p><b>Responsible Officer: Paul Doherty</b></p> <p><b>December 2021</b></p>	<p>We will substantively test a sample of users to ensure that access permissions are appropriate.</p>
<p><b>2 Payroll - validation checks</b></p> <p>We reported last year that employee validation checks are now carried out by payroll across all council services. However, this process is still considered incomplete as it does not require positive confirmation that the employee listing is correct. We note that positive confirmation was implemented for the Education service</p>	<p><i>Positive validation reports have been implemented for Education and Families and this exercise will be repeated on a yearly basis.</i></p> <p><i>Positive validation for all other services will be undertaken in July 2021 and yearly thereafter.</i></p>	<p>We will substantively test a sample of paid employees to ensure they exist as current employees through confirmation to other records.</p>

Audit Finding	Management response	Additional procedures
<p>towards the end of 2020/21 and has been rolled out to all council services from May 2021.</p> <p><b>There is the risk that the absence of a periodic validation of all staff through positive confirmation of employment staff remain on the payroll after they have left employment.</b></p>	<p><b>Responsible Officer:</b> <b>Jennifer Hardy, Employee Service Centre Manager</b></p> <p><b>July 2021</b></p>	
<p><b>3 Council Tax and Non Domestic Rates - Second officer checks</b></p> <p>Officers in the revenues team carry out spot checks over reliefs and discounts awarded and annual reviews of existing discounts and reliefs. Due to the additional workload on the revenues team as a result of the Covid-19 pandemic and administering the business grants, these second officer checks were paused in 2020/21.</p> <p><b>There is a risk that people are in receipt of reliefs and discounts for council tax and non domestic rates who are no longer entitled or not eligible.</b></p>	<p><i>Second officer checks for reliefs and discounts were temporarily suspended for Council Tax and NDR in order to alleviate the strain on service delivery as a result of COVID-19. It was acknowledged that this increased the potential risk of error in this area however this was for a limited period only. The Council Tax and NDR second officer checking process re-commenced from April 2021.</i></p> <p><b>Responsible Officer: Paul Doherty</b></p> <p><b>Complete</b></p>	<p>We will substantively test an extended sample of reliefs and discounts awarded for council tax and non-domestic rates.</p>
<p><b>4 Non Current Asset Valuation</b></p> <p>The council operates a five-year rolling programme of reviews for whole asset classes with no indexation applied in the intervening years.</p> <p>The revaluation of education properties in 2018/19 demonstrated an increase in net book value for this category of 25-30% since the previous valuation. Therefore, in each intervening year the estimated value of education properties could become increasingly inaccurate. As it is now two years since the last revaluation of education property, this estimation error could be 10-12%.</p> <p>The council should revise its processes to include intervening indexation to ensure asset values are more accurate.</p> <p>Site visits, which normally are undertaken as part of the valuation exercise, are currently suspended due to Covid-19 restrictions. This could affect assessments of obsolescence,</p>	<p><i>Financial Solutions enters into a service level agreement with the Council's Asset and Procurement (Property Services) team to carry out the five-year rolling programme of reviews for whole asset classes and therefore will discuss the proposals with them as this would require a change to the terms of the engagement and will also seek their opinion on the appropriateness of the indexation approach recommended, including any RCIS or industry guidance.</i></p> <p><b>Responsible Officer: Elaine Kemp</b></p> <p><b>March 2022</b></p>	<p>We will review management controls over the valuation process at the year end, the reasonableness of any valuation estimate, and the council's process of impairment review.</p>

Audit Finding	Management response	Additional procedures
<p>and management impairment reviews are therefore increasingly important.</p> <p><b>There is a risk that asset values, in particular education assets, in the accounts are materially inaccurate.</b></p>		

## Financial Management

### The Budget Recovery Group was set up to closely monitor the financial position throughout the year

**15.** The council effectively monitors the budget position through the year. Typically this is through monthly budget monitoring reports to the Corporate Management Team and quarterly reports taken to the Finance and Resources Committee. As a result of the significant financial impact of Covid-19 and the timing of committee meetings, financial monitoring reports were not presented to every monthly CMT meeting. Rather, the council introduced additional financial controls and governance arrangements through specific finance reports to the full Council and the Policy and Strategy Committee as required and more detailed monitoring took place through the Budget Group. This was to ensure finances were monitored more closely in 2020/21, given the additional complexities and uncertainties arising from Covid-19, and to respond promptly to emerging issues.

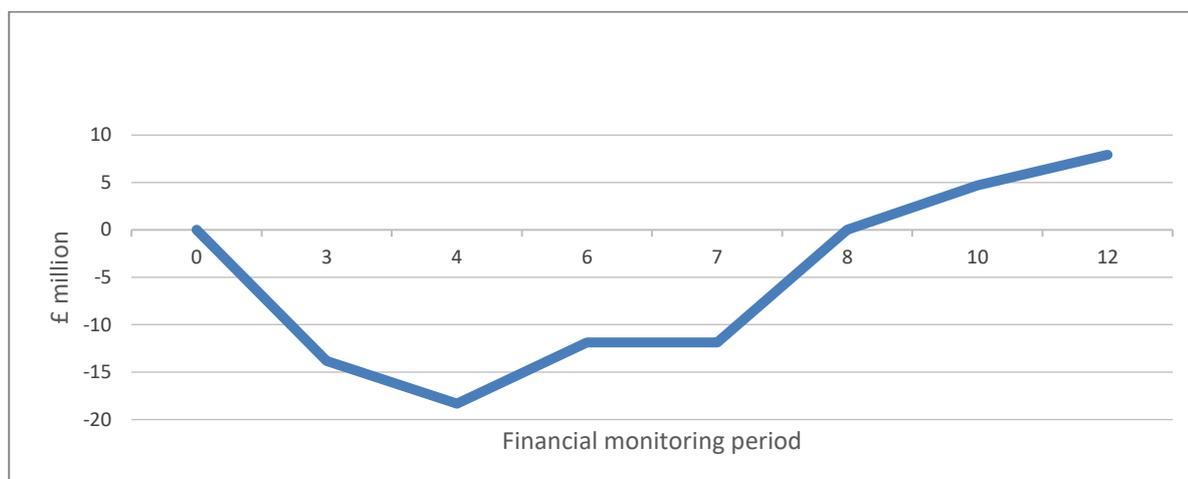
**16.** The Budget Group was set up during 2020/21 and is made up of Executive Directors and chaired by the Section 95 Officer. The group was established to focus on setting actions on future savings plans to address budget gaps forecast for 2021/22 and 2022/23 and to brief members in relation to savings requirements for these years. The group also had a focus on the current financial year, specifically the 2020/21 financial position and the impact of Covid-19, ensuring that the cost of the pandemic to the council was captured, reported and appropriate management action taken.

**17.** 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.

**18.** Details of how the year end outturn position was forecasted throughout 2020/21 is included in [Exhibit 3](#). The latest available monitoring report, to period 12 shows a forecasted year end outturn. The provisional outturn position is due to be presented to the CMT.

## Exhibit 3

### Summary of outturn reporting of the projected year end surplus during 2020/21



Source: Financial monitoring reports

#### The council is forecasting a provisional year end surplus

**19.** The council approved a General Fund Revenue Budget of £780 million in March 2021. This has since been increased by £73 million to £853 million as a result of a number of Covid-19 related funding streams being confirmed. As at May 2021, the council is forecasting a surplus of £7.9 million ([Exhibit 3](#)). The council has separated this into £6.5 million in relation to Covid-19 and £1.4 million forecast outturn for non Covid-19 expenditure.

**20.** The council is forecasting additional costs, in 2020/21, of £52.5 million as a result of the Covid-19 pandemic. This is offset by £77 million of additional grant income and £3 million of the council's Covid-19 contingency fund. The council forecasts carrying forward £22 million for costs relating to Covid-19 into 2021/22.

**21.** The council does not plan to use any of the fiscal flexibilities offered by the Scottish Government in 2020/21.

**22.** At a service level, Enterprise and Communities service is forecasting an overspend of £7.7 million, largely due to reduced income from

- planning and building standards fees
- school meals
- North Lanarkshire Industries
- special uplifts
- letting
- parking and other roads income.

**23.** The Chief Executive service is projecting an overspend of £2.4 million. This largely relates to the non-achievement of savings, and income under-recovery across a number of income generating activities. The remaining services are forecasting underspends or are on-budget with their provisional outturns.

24. Expenditure from earmarked reserves is not included in the £7.9 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.

## Best Value Follow Up

25. Best Value is assessed over the five-year audit appointment, as part of the annual audit work. Last year we carried out a follow up review on the council’s progress against each of the recommendations made in the [Best Value Assurance Report](#) published in May 2019. For 2020/21, we have selected a sample of four of these recommendations and carried out a further review on progress.

26. At its meeting in June 2019 the council agreed the recommendations within the Best Value Assurance Report. Progress on the eight recommendations was 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. Progress on the recommendations is tracked through the various updates on the Programme of Work which go to committee.

27. We have considered the council’s progress against the sampled recommendations in [Exhibit 5](#). We recognise that the Covid-19 pandemic has impacted progress in several areas. However, the council has continued to make good progress in addressing the recommendations in the Best Value Assurance Report.

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## 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>The Covid-19 pandemic has impacted on the council’s usual activity of maintaining the strategic frameworks which support the Plan for North Lanarkshire and the Programme of Work and ensure good governance. However, updates to members show a clear commitment to realign these frameworks to the Plan and Programme of Work given the impact of Covid-19 on the council’s operations.</p> <p>28 of the 31 policies and strategies included in the Strategic Policy Framework have now been updated and approved since the approval of the Framework in 2018. The council has created a section of the website which holds all strategies, policies and plans (including sub-policies which support higher level strategies). We selected a small sample of strategies/ plans from this section of the website. Of the five sampled, two were currently under review in line with their cycle of review and the others were up to date and available on the website. Our work found that two strategies (outwith our sample), which had recently been reviewed, had not yet been uploaded to the website.</p> <p>We are satisfied that the council has a robust process in place to ensure policies and strategies are kept up to date and regularly reviewed to ensure they are aligned to the Plan and any laws and regulations. The council has acknowledged that the frameworks in place to support delivery of the Plan need to be reviewed further in light of the Covid-19 pandemic. This will be done as part of their annual review.</p>

BVAR Recommendation	Summary of progress
<p>Performance information on the council's website should be kept up-to-date to improve accountability to the public.</p>	<p><b>Complete</b></p> <p>The council completed the launch of its new website in 2020. The website now includes the 'Our Performance' section which covers the councils performance against the Local Government Benchmarking Framework (LGBF) indicators and a section on its statutory duty to deliver Best Value.</p> <p>The first phase of the publication of the 2019/20 data was completed in March 2021 and the second phase, which provides updated financial information and data on children and social work, was completed in May 2021. We acknowledge the time lag in the availability of the LGBF data and are satisfied the council is publishing the data as it becomes available.</p> <p>The LGBF indicator data can be accessed through an online portal on the council's website and this also provides comparisons of North Lanarkshire Council against the Scottish average and similar local authorities. We reviewed several LGBF indicators in the portal and all were dated 2019/20 and represented the most up to date information available.</p> <p>We are satisfied that the council has processes in place to regularly update the performance information on its website.</p> <p><b>Complete</b></p>
<p>The council should complete the Investors in People programme as planned and determine how it will maintain staff engagement.</p>	<p>Each service within the council has now been assessed against the Investors in People (IiP) framework. The council is now being assessed as an organisation against the framework. There are three parts to the assessment. Investors in People will consolidate these findings with a full report being presented to the CMT in June 2021. The council are therefore on track to obtain the full Investors in People accreditation.</p> <p>Improvement recommendations are provided for each assessment undertaken. The council has developed an Investors in People Employee Engagement Improvement Plan with work streams and actions mapped back to the recommendations and IiP framework dimension.</p> <p><b>Good progress has been made.</b></p>

BVAR Recommendation	Summary of progress
<p>Improvement plans arising from self-evaluation exercises should include measurable actions and clear deadlines.</p>	<p>A 12-week self-evaluation was planned for Spring 2020. However, due to the Covid-19 pandemic this had to be postponed given the nature of the exercises involved, the working restrictions and council resources were deployed elsewhere in response to the pandemic.</p> <p>Whilst the initial planned exercise has been delayed, the council has continued its commitment to self-evaluation. The council completed an exercise to evaluate its response to the Covid-19 pandemic. The results of this exercise were reported to the Policy and Resources Committee in October 2020. The report details the review of the council's response and lessons learned. An action plan has been developed which will be monitored by a separate corporate group and the results have fed into the Programme of Work for 2021/22.</p> <p>The Strategic Self-Evaluation Framework has been updated this year to be in line with national Best Value guidance published in March 2020. This, and the 2021/22 programme of review are to be presented to the CMT in June 2021.</p> <p>While the council have had to delay its planned self-evaluation exercise as a result of the global pandemic, it has shown a clear commitment to self-evaluation through its review of the Covid-19 response and annual review of the Strategic Self Evaluation Framework.</p> <p><b>Reasonable progress has been made.</b></p>

Source: Audit Scotland

# North Lanarkshire Council

## Management Report 2020/21

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