

North Lanarkshire Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for North Lanarkshire Council
February 2017

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit (including the new approach to Best Value). The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for North Lanarkshire Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of significant management estimates and evaluation of the impact of any variability in key assumptions. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>North Lanarkshire Council receive a significant amount of income, approximately 40%, from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> Use of clearly defined procedures designed to ensure income due to the Council is properly recorded and collected. Comparison of income against budget. Management review by qualified finance staff. 	<ul style="list-style-type: none"> Walk through of controls within income systems. Analytical procedures on income streams. Detailed testing of revenue transactions.

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. North Lanarkshire Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<ul style="list-style-type: none"> • Procedures designed to ensure that payments are only made where they are appropriate and have been properly authorised. • Additional procedures incorporated into arrangements relating to specific expenditure streams which are designed to prevent and detect fraud. 	<ul style="list-style-type: none"> • Audit work on the National Fraud Initiative matches. • Walk through of controls over social care payments. • Assessing the overarching controls in grant schemes. • Detailed testing of expenditure and housing benefit transactions.
<p>4 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of pensions, non-current assets, accruals and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Use of clearly defined methodologies and procedures including specialist professionals, as appropriate, when making significant estimations and judgements. • Management review by qualified finance staff. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in accordance with ISA500 for the professional valuer and actuary. • Focused substantive testing of provisions focusing on the appropriateness of the valuation for equal pay.
<p>5 Highways network assets (HNA)</p> <p>HNA are to be recognised for the first time in the 2017/18 financial statements of councils. While this is not a risk to the 2016/17 financial statements, this is a new and complex area and there is a risk that North Lanarkshire Council does not have sound arrangements in place for adoption in 2017/18.</p>	<ul style="list-style-type: none"> • Finance and Roads staff work closely to ensure adequate and reliable information is available to support asset valuations in accordance with accounting requirements. 	<ul style="list-style-type: none"> • Assess the arrangements in place to implement the new requirements. • Review and assess the valuation methodology for HNA. • Assess the accuracy and completeness of road dimensions and categorisations
<p>6 Group accounting</p> <p>North Lanarkshire Council has a complex group which requires the consolidation of a range of subsidiaries, associates and joint ventures. For 2016/17 this also includes consolidating the North Lanarkshire Integration Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.</p>	<ul style="list-style-type: none"> • Clearly defined methodologies and procedures for identifying and reporting on group accounts entities. • Management review by qualified finance staff. 	<ul style="list-style-type: none"> • Review the group boundary assessment undertaken by the council. • Component audit questionnaires and, where appropriate, meetings with the auditors of material components in accordance with ISA 600. • Detailed coverage during the financial statements audit of the consolidation process.
<p>7 Revised financial statement formats</p> <p>From 2016/17 the Code requires authorities to present their service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services. In 2016/17 North Lanarkshire Council</p>	<ul style="list-style-type: none"> • Clearly defined procedures, involving and overseen by qualified finance staff, for ensuring financial information produced is in accordance with the Accounting Code of Practice. 	<ul style="list-style-type: none"> • Review work done on mapping the audited 2015/16 CIES to the new service structure to ensure completeness/ accuracy/ categorisation of comparative information.

Audit Risk	Management assurance	Planned audit work
<p>restructured its services resulting in a risk that comparative 15/16 data may not be available in the format of the new service structure.</p>		
<p>8 Loans Fund Accounting The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that North Lanarkshire Council do not have arrangements in place to comply with the new accounting practices.</p>	<ul style="list-style-type: none"> • Good understanding of financial reporting requirements reflected in Treasury Management strategy. • Clearly defined procedures, involving and overseen by qualified finance staff, for ensuring financial information produced is in accordance with the Accounting Code of Practice. 	<ul style="list-style-type: none"> • Review the arrangements in place to comply with the new loans fund accounting requirements. • Detailed audit testing of loans fund transactions within the financial statements.
Wider dimension risks		
<p>9 Financial sustainability North Lanarkshire Council has a long term financial plan covering the period 2014 to 2024. This is based on financial assumptions and informed by scenario planning. While the council has made progress in financial planning, financial challenges are unlikely to reduce and budget gaps remain.</p>	<ul style="list-style-type: none"> • Financial management arrangements include a long-term financial planning framework and 10 year plan. • The development in 2016-17 of revised strategic approach to budget setting including the work of the Budget Sounding Board and closer alignment of the Council's budget-setting processes with corporate priorities. 	<ul style="list-style-type: none"> • Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.
<p>10 Financial management North Lanarkshire Council approved a budget for 2016/17 that included the requirement for £42.5 million of savings to achieve financial balance. The council recognises that a small balance (approximately £1.3 million) is unlikely to be achieved, and further cost pressures have also arisen in relation to the re-evaluation of Home Support Workers posts. There is a risk that the council will not achieve a balanced year end position.</p>	<ul style="list-style-type: none"> • Financial management arrangements including monitoring in-year of the delivery of approved financial savings. • Regular budgetary control reports produced to assist monitoring and assessing expenditure against budget including explaining variances, highlighting areas of risk and/or uncertainty and identifying any planned management actions. 	<ul style="list-style-type: none"> • Review financial monitoring reports and the financial position. • Undertake specific audit work on financial governance and resource management. • Consider the findings from internal audit work on financial savings.
Governance and transparency		
<p>11 ICT security North Lanarkshire Council identified instances of attempted ransom-ware attacks during</p>	<ul style="list-style-type: none"> • ICT Security Policies regularly reviewed and communicated to staff. • Range of preventative 	<ul style="list-style-type: none"> • Completion of 'Your Business @ Risk' Security Survey. • Further assessment of

Audit Risk	Management assurance	Planned audit work
2016/17. This has highlighted a risk over employee awareness of IT security protocols that could potentially impact on the operation of the IT systems.	controls within key ICT networks and systems designed to mitigate the risk of external threats.	ongoing cyber security risks.
<p>12 Registers of interest</p> <p>From a review of a number of Member's registers of interest it has been identified that several returns are out of date, including a number which have not been updated since 2012. North Lanarkshire Council has a number of ALEO's within its group and there is a risk that members have roles or interests which are not disclosed resulting in conflicts of interest not being identified.</p>	<ul style="list-style-type: none"> • Training for members in respect of their role in ensuring they comply with all requirements in respect of declarations and registers of interest. • Periodic reminders issued to elected members of their obligations in respect of declaration of interests. 	<ul style="list-style-type: none"> • Detailed review of processes in place for completion of registers including review of guidance and assessment of compliance. • Consideration of any issues identified through NFI matches and the appropriateness of existing disclosures in registers.

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers five trusts with charitable status and an education trust, with total assets of £1.7 million. We will perform the audit of the council's charitable trusts in parallel with the audit of North Lanarkshire Council's financial statements. There are no specific risks for these audits which we require to bring to your attention.

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

6. We will provide an independent auditor's report to North Lanarkshire Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Members of North Lanarkshire Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Governance Panel Date
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Audit Output	Target date	Audit and Governance Panel Date
Interim Management Report	26 May 2017	28 June 2017
Annual Audit Report including ISA 260 requirements	8 September 2017	27 September 2017
Signed Independent Auditor's Report	27 September 2017	27 September 2017

Audit fee

7. The agreed audit fee for the 2016/17 audit of North Lanarkshire Council is £494,250. In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 30 June 2017.

8. We have also agreed an audit fee of £8,500 for the charitable trusts which are detailed in paragraph 3.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Governance Panel and Chief Executive

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the financial statements does not relieve management or the Audit and Governance Panel, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

13. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of North Lanarkshire Council and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how these will be included in the financial statements
- assessing the risks of material misstatement in the financial statements, and the impact of consolidation of the Integration Joint Board into the group accounts
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement including exploring the use of data analytics.

15. We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the state of the affairs of the council and its group and of the income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

16. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the Council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.	£11.5 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of planning materiality.	£2.8 million
Reporting threshold - We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality rounded to a memorable numeric.	£0.1 million

17. We also set separate materiality levels for the five trusts with charitable status and the education trust as detailed below.

Exhibit 4

Trust Materiality values

Trust	Planning materiality	Performance materiality	Reporting threshold
Dall Christmas Charity Fund for the Poor	£100	£90	£5
JC McNaught Poor Childrens Holiday Fund	£70	£63	£4
Mitchell Fund for Poor of Shotts	£45	£41	£4
Sir Robert Stewart Bequest for Deserving Poor of Parish of Cambusnethan	£26	£23	£1
Sir Robert Stewart Bequest for Poor of Parish of Shotts	£64	£58	£3
North Lanarkshire Council Educational Endowments	£33,000	£19,800	£660

18. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the management commentary, annual governance statement and remuneration report. Any issue identified will be reported to the Audit and Governance Panel.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. A proposed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Audit & Governance Panel dates:

Exhibit 5

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Business for Financial Solutions	1 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	8 September 2017
Independent auditor's report signed	27 September 2017
Latest date for signing of WGA return	2 October 2017

Internal audit

20. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Internal Audit section at North Lanarkshire Council.

Adequacy of Internal Audit

21. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Areas of reliance

22. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Feeder systems reconciliations to the ledger
- Payroll validation
- Payroll exception reporting
- Authorisation of journals
- Monitoring and reviewing of budgets
- Council tax discounts.

23. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Financial Savings
- Equal Pay

- ALEOs / Following the Public Pound
- City Deal
- Integration of Health and Social Care
- Business Continuity Planning
- NFI.

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#). The appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 6

Audit dimensions



Financial sustainability

25. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on the following in 2016/17:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the arrangements in place to ensure systems of internal control are operating effectively
- whether North Lanarkshire Council can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

Governance and transparency

27. 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. These include:

- whether North Lanarkshire Council can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered by, or in partnership with, others such as ALEOs
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.

Value for money

28. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether North Lanarkshire Council can provide evidence that it is demonstrating value for money in the use of its resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Strategic plan for the five year appointment

29. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 7
Strategic plan

Dimension	2016/17*	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance and resource management		Financial governance and resource management City Deals
Governance and transparency	Governance	Organisational restructuring	Community engagement/empowerment
Value for money		Performance / outcomes	Transformational change Working with partners

* Note that the NHS Lanarkshire audit team are completing a review of delayed discharges which may involve discussions with council staff.

Best Value

30. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

31. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific areas. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight findings from across all 32 councils
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

32. The six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 8](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 8 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

33. The work planned in North Lanarkshire Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated into the audit approach and will be reported in the Annual Audit Report.

Independence and objectivity

34. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

35. The engagement lead for the North Lanarkshire Council is Brian Howarth, Assistant Director. The engagement lead for the charitable trusts and the education trust is Carole Grant, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may

affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of North Lanarkshire Council or the trusts.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

North Lanarkshire Council

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