

North Lanarkshire Council

2016/17 Annual Audit Report



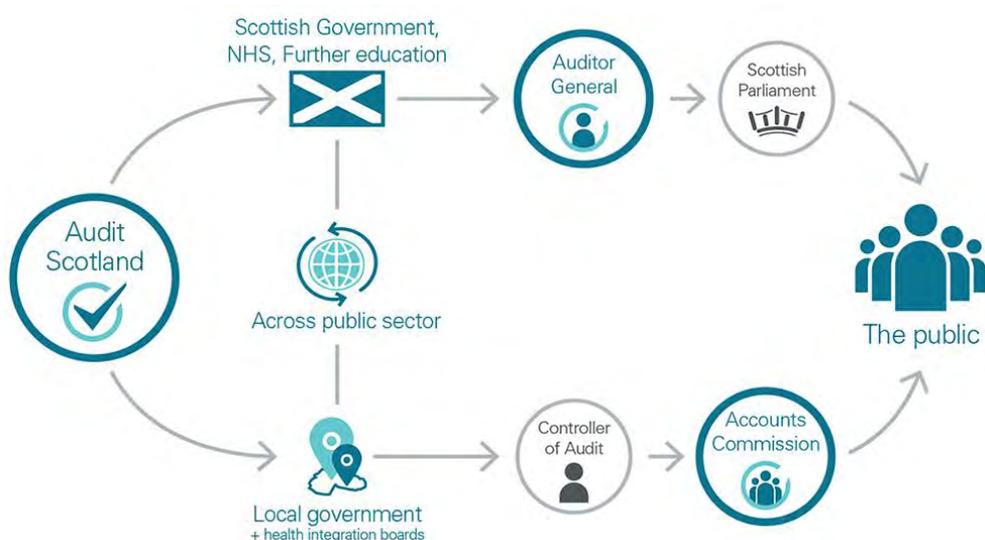
 AUDIT SCOTLAND

To the Members of North Lanarkshire Council and the Controller of Audit
September 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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2016/17 annual report and accounts	7
Part 2 Financial management	13
Part 3 Financial sustainability	17
Part 4 Governance and transparency	22
Part 5 Value for money	28
Appendix 1 Action plan 2016/17	31
Appendix 2 Significant audit risks identified during planning	35
Appendix 3 Summary of unadjusted errors	39
Appendix 4 Summary of national performance reports 2016/17	40

Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement of the Council and of the charitable trusts administered by the Council.
- 2 Improvements are required to the processes for preparing the group accounts.

Financial management

- 3 Financial management in 2016/17 was robust.
- 4 The Council has appropriate internal controls but these could be strengthened to include second officer checks for payroll changes and non-domestic rate reliefs.
- 5 The Council is making adequate progress in following up the matches identified in the latest NFI exercise

Financial sustainability

- 6 The Council currently has a medium / long term financial plan however this has not been updated since May 2014. This is currently being updated to support the delivery of key Council priorities.
- 7 The Council has a proven track record of delivering savings targets and robust cross-party processes for agreeing budgets. The Council is currently financially sustainable.

Governance and transparency

- 8 The Council's approach to reporting the results of internal audit investigations could be more transparent with some such reports not being provided promptly or fully to councillors via the Audit and Scrutiny Panel.
- 9 Historic examples of poorer business conduct in an ALEO of the Council came to light in 2016/17. The Council has since established good arrangements for monitoring the performance of ALEOs.
- 10 The Council's new committee arrangements are generally appropriate and support good governance.
- 11 An unsuccessful application to the Public Sector Network in May 2016 was not reported to senior officers or councillors and the Council has continued to connect to the PSN without a compliance certificate.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of North Lanarkshire Council.
2. The scope of the audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit and Governance Panel. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work for North Lanarkshire Council in 2016/17 have been:
 - an audit of the key controls operating within the main financial systems and review of governance arrangements
 - audit work covering the arrangements for securing Best Value relating to financial planning and financial management
 - an audit of the 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.
4. North Lanarkshire Council is responsible for preparing annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
6. As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within North Lanarkshire Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the best value arrangements. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. This report raises matters from the audit of the annual accounts and the identified risks or control weaknesses from our audit work. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our Annual Audit Report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both North Lanarkshire Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on the Council's annual accounts.

Unqualified audit opinions on the trusts administered by the Council.

Improvements are required to the processes for preparing the group accounts and the identification of related party transactions.

Unqualified audit opinions

- 13.** The annual accounts for the year ended 31 March 2017 were approved by the Audit and Scrutiny Panel Committee on 27 September 2017. However the accounts were not signed until 2 October 2017 when the Chief Executive returned from annual leave. We reported, within our independent auditor's report on North Lanarkshire Council:
- an unqualified opinion on the financial statements
 - unqualified opinions on the management commentary, remuneration report and annual governance statement.
- 14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.
- 15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of North Lanarkshire Council are sole trustees, irrespective of the size of the charity. In recent years the Council has managed to transfer a number of charitable trusts into local charities with similar purposes and this work is continuing for the remaining trusts.
- 16.** We issued unqualified audit opinions on the 2016/17 financial statements of:
- North Lanarkshire Council Educational Endowments
 - Dall Christmas Charity Fund for the Poor
 - JC McNaught Poor Children's Holiday Fund
 - Mitchell Fund for Poor of Shotts
 - Sir Robert Stewart Bequest for Deserving Poor of Parish of Cambusnethan
 - Sir Robert Stewart Bequest for Poor of Parish of Shotts.

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

Submission of the Council's annual accounts for audit

17. We received the unaudited annual accounts of the council on 28 June 2017, and the unaudited trust accounts on 26 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. The working papers provided with the unaudited annual accounts were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
18. In 2016/17, for the first time, the Council's group accounts included the financial results of North Lanarkshire Integration Joint Board (NLIJB). The consolidation of NLIJB did not cause any significant issues for the preparation of the accounts.

Risk of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the audit planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions from our work.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.
21. Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and included in our Annual Audit Plan. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. On receipt of the annual accounts, and following consideration of the results of our interim audit testing, we reviewed our original materiality calculations and revised them based on the updated information available. Our materiality values are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values for North Lanarkshire Council

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£13.4 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 overall materiality.	£3.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£100,000

Source: Audit Scotland

22. We also set separate materiality values for each of the charitable trusts' financial statements as detailed in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Overall materiality	Perf. materiality	Reporting threshold
North Lanarkshire Council Educational Endowments	£33,000	£19,800	£660
Dall Christmas Charity Fund for the Poor	£101	£91	£5
JC McNaught Poor Children's Holiday Fund	£71	£64	£4
Mitchell Fund for Poor of Shotts	£46	£41	£2
Sir Robert Stewart Bequest for Deserving Poor of Parish of Cambusnethan	£27	£24	£1
Sir Robert Stewart Bequest for Poor of Parish of Shotts	£65	£58	£3

Source: Audit Scotland

How we evaluate misstatements

23. A number of adjustments were identified during the course of our audit. These were discussed with relevant officers, and one adjustment was made to the figures in the group accounts. This covered the accounting treatment for deferred income held by a subsidiary and resulted in an increase in consolidated income of £5.8 million and removal of the capital grants receipts in advance liability disclosed in the balance sheet. The impact of the unadjusted misstatements is detailed in [Appendix 3](#).
24. [Exhibit 4](#) details the significant findings from the audit and includes details of the misstatements identified at paragraphs 31 and 32.
25. Our estimate of the maximum error, connected with the valuation issues, is £1.1 million and this would reduce the deficit on the provision of services with an equal impact on the revaluation reserve.
26. As noted at paragraph 30 we identified a number of issues with the group accounts preparation process. The impact of the unadjusted misstatements on income and expenditure would be a decrease in expenditure of £1.7 million with an associated decrease in income of £1.6 million resulting in a net £0.1 million impact on the group reserves. In addition due to the elimination of intra-group transactions the short term debtors and creditors in the group accounts would both decrease by £2.4 million.
27. In assessing the total error of £11.8 million we recognised that this exceeded our performance materiality value of £3.4 million, however as we had reviewed the consolidation of all subsidiary bodies and the treatment of all in-year asset disposals, we are content that we have identified/estimated the entire error, have considered the impact on our planned audit procedures and decided that no further audit work is required.

28. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items detailed in [Appendix 3](#) as the amounts are not considered material in the context of the financial statements.

Significant findings

29. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 4](#) (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).

Exhibit 4

Significant findings from the audit of North Lanarkshire Council accounts

Issue	Resolution
<p>Group accounts</p> <p>30. The current arrangements for preparing the group financial statements need to be improved. We identified that there are no processes in place to:</p> <ul style="list-style-type: none"> • review the accounting policies to ensure consistency of treatment • agree intra group transactions for elimination • identify audit adjustments within the subsidiary accounts to consider the impact for the group. <p>In addition we did not receive a reply from Amey Public Services LLP's auditors to our group questionnaire seeking assurances on their financial statements.</p>	<p>Additional audit testing has ensured that the group financial statements in the audited accounts are not materially misstated.</p> <p>We concluded that the council's share of Amey Public Services LLP is not material to the financial statements.</p> <p style="text-align: right;">Action Plan (Appendix 1, point 1)</p>
<p>Non current asset accounting</p> <p>31. There are two aspects of revaluation of non current assets per the accounting policies that are not being applied in practice</p> <ul style="list-style-type: none"> • Asset disposals are only revalued at the date of sale, rather than when the asset is identified as held for sale. This impacts on the accuracy of the gain or loss achieved in the asset sale. Audit testing has indicated that the maximum possible error in 2016/17 would be £1.1 million as detailed at paragraph 23. There would be no net effect on the general fund position. • During 2016/17 £1.4 million of surplus assets were reclassified back to operational assets. This should have changed the basis of their valuation. These assets were not revalued on reclassification and are therefore incorrectly held at fair value in the accounts. 	<p>The impact of both items is not material for the accounts in 2016/17.</p> <p style="text-align: right;">Action Plan (Appendix 1, point 2)</p> <p>We have received confirmation that, as the majority of the surplus assets reclassified during the year were land, any movement would be below our reporting threshold.</p>

Issue	Resolution
Housing revenue account (HRA)	
<p>32. The Council accounts for HRA rental income in full rather than reducing for void periods, but where void periods are identified, this is recorded as expenditure. The accounting treatment is incorrect and for 2016/17 has resulted in an overstatement in both income and expenditure of £0.8 million.</p>	<p>There is no impact on the HRA surplus for the year.</p>
Earmarked reserves	
<p>33. The unaudited accounts did not contain the required disclosures for the general fund to show the movement in year of the earmarked elements.</p>	<p>This disclosure has now been included within Note 25 of the audited accounts.</p>
Management commentary	
<p>34. The management commentary within the unaudited accounts did not contain sufficient information to enable the reader of the accounts to assess the financial performance for the year, establish the financial position and understand the future challenges for the Council.</p>	<p>The management commentary in the audited accounts has been extended to include more detail on the year end general fund position and planned future use. Further improvement could be achieved by including information on how the outturn position compares with the budget set at the start of the year.</p>
Action plan (Appendix 1, point 3)	
Exit packages	
<p>35. The exit packages included within the unaudited accounts contained a small number of errors with a total value of £145,000. The errors resulted in cases moving between the bandings disclosure.</p>	<p>The audited accounts have been updated to reflect the correct exit package disclosures.</p>
Going concern	
<p>36. The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis. The Council has tax raising powers and we are not aware of any significant change in government policy that might affect the continued provision of services. We concur with management's view that the going concern assumption remains appropriate.</p>	
Other findings	
<p>37. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.</p>	

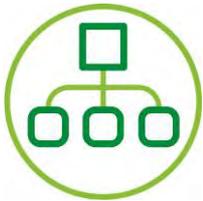
Objections and Whole of Government Accounts

- 38.** 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 we did not obtain any objections to the annual accounts.

- 39.** Due to technical issues with the Whole of Government Accounts template the Council's return was not submitted until 2 October 2017.

Part 2

Financial management



Main judgements

Financial management in 2016/17 was robust.

The Council has appropriate internal controls but these could be strengthened to include second officer checks for payroll changes and non-domestic rate reliefs.

The Council is making adequate progress in following up the matches identified in the latest NFI exercise.

Financial management in 2016/17

40. The [Local Government in Scotland: Financial overview 2015/16](#) (November 2016) highlighted that good financial management is required to ensure spending is accurately forecast and monitored within the year against robust budgets.
41. In February 2016 the Council approved a balanced 2016/17 revenue budget of £746 million, including the use of £2 million from the unallocated general fund reserve (excluding planned use of earmarked reserves). £32 million of financial savings were required to achieve a balanced budget. This included £13 million of base budget adjustments which were accepted as having minimal or no impact on staff, services or existing policies, for example improvement in council tax collection processes and targeted delivery of procurement efficiencies. In addition, £19 million of thematic savings were identified by services from areas such as service prioritisation, asset management and procurement. Specific savings options included the detail of how these would be achieved and what financial impact they would have. Savings options appeared robust and were clearly embedded within the budget setting process.
42. Throughout the year budget monitoring reports were reported to the Corporate Management Team on a monthly basis and the Policy and Resources (Finance and Customer Services) committee on a quarterly basis. In addition each service reports to the relevant sub committee on their progress against their revenue and capital budgets quarterly. The Council reported an anticipated year end surplus. This increased in the final 6 months of the year from an estimated surplus of £2 million at period 6, to an outturn position of £13.9 million at period 13 as shown in [Exhibit 5](#). This is primarily due to underspends in staff costs and property costs, and additional Scottish Government funding received in-year. Reserves of £8.3 million were used to deliver this position, the majority of which was the planned use of earmarked reserves. This included the allocation of £5.4 million from reserves to the Integration Joint Board to mitigate the impact of re-grading Home Support Workers. The internal management reporting demonstrates that it satisfactorily forecast and reported the development of the final position shown in the audited financial statements. The Council has

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

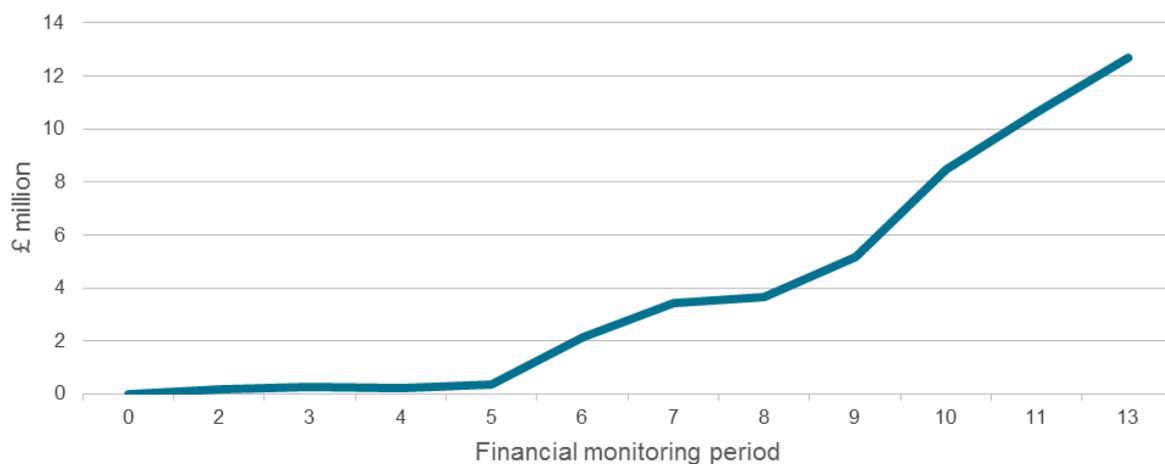
extended its reporting to committee to include earmarked reserves, this reporting shows that the majority of earmarked reserve will be used in year, however this is not fully reflected in the year end outturn. In addition the reporting does not include any detail on planned contributions to the reserves and therefore does not provide a clear picture of the year end general fund position.

Action plan (Appendix 1, point 4)

43. Throughout the year services demonstrated achievement of savings with over 83% of identified savings achieved directly as planned and a further 12% from alternative savings options.

Exhibit 5

Summary of outturn reporting of the projected year-end surplus during 2016/17



Source: North Lanarkshire Council revenue monitoring reports

Housing Revenue Account

44. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The income requirement for the HRA in 2016/17 was set at £125 million primarily funded from council house rents. This resulted in a rent increase of 3% with the average weekly rent increasing from £57.51 to £59.24.
45. The Council's current rent arrears in 2016/17 were £3.5 million representing 2.9% of the rents for the year (prior year £3.2 million representing 2.8%). The overall position is relatively stable and the Council is continuing to work to improve the overall collection levels.
46. In 2016/17, the Council recorded a surplus on HRA services of £4.7 million. However after applying the statutory accounting adjustments and transferring £2.4 million to the general fund the HRA balance reduced by £2.2 million. This leaves a cumulative surplus of £8.2 million to be carried forward for future years with a significant proportion (£5.5 million) held for approved specific purposes.

Capital programme 2016/17

47. In 2016/17 the Council delivered 84% of the approved capital programme of £137 million (£58 million on the general services and £79 million on the housing capital programme). In addition, £29 million was spent on Greenfaulds High School under a financing arrangement in partnership with hub South West Scotland.
48. Total capital expenditure in 2016/17 was £145 million, including Greenfaulds High School, with £22 million slippage on the capital programme primarily within the HRA new build programme.

City Deal projects

49. North Lanarkshire Council was successful in securing funding in principle for three headline projects totalling £173 million of new investment to the area as part of the Glasgow City Region (GCR) City Deal. The projects are:
 - A81 M8 Corridor Access Improvements (£12.6 million)
 - Gartcosh/Glenboig Community Growth Area (£66.3 million)
 - Pan Lanarkshire Orbital Transport Corridor (£93.4 million)
50. In 2016/17 capital expenditure of £2.6million was incurred on City Deal projects and the expenditure is recorded as an asset under construction in the financial statements. A claim for funding is completed and has been submitted to Glasgow City Region Cabinet for the expenditure to date.

Financial capacity within the Council

51. The Section 95 officer is the Head of Business for Financial Solutions. He is a member of the Corporate Management Team and has direct access to the Chief Executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council to fulfil his responsibilities.
52. With the recent Council elections there have been a number of new members elected. It is important that they receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We have recently been involved in delivering a training event for members of the Audit and Scrutiny Panel.

Internal controls

53. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
54. Our findings were included in our interim audit report that was presented to the Audit and Scrutiny Panel in July 2017. We concluded that the key controls were operating effectively, however we identified a small number of areas where the controls could be strengthened including second officer checks for payroll changes and the award of non-domestic rate reliefs. We also reported the absence of a robust staff validation process. As a result of these control weaknesses we adapted our substantive audit approach for the financial statements to obtain the necessary assurances.
55. The Head of Audit and Inspection concluded in the annual governance statement that reasonable assurance could be placed on the adequacy and

effectiveness of the internal control systems, however the following four areas were highlighted:

- the current project management arrangements
- findings from the investigation into allegations of fraud and corruption within the Council's Corporate Property and Procurement service
- management arrangements for transformational change
- transitional arrangements for performance management.

Prevention and detection of fraud

- 56.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.
- 57.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

- 58.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
- 59.** The latest position on NFI investigations by the Council is summarised in [Exhibit 6](#).

Exhibit 6

National Fraud Initiative

Total number of matches



18,869

Number recommended for investigation



7,473

Completed/closed investigations



4,558

Source: NFI website

- 60.** The Council recognises that the NFI is an important tool in allowing investigative resources to be targeted at risk areas. NFI progress and outcomes are reported regularly by Internal Audit to the Audit and Scrutiny Panel. The Council is making adequate progress in following up the matches identified in the latest NFI exercise.
- 61.** One NFI match related to a £27,000 payroll overpayment by North Lanarkshire Council to an ex-employee formerly based in the education service. The overpayment has now been fully recovered.

Part 3

Financial sustainability



Main judgements

The Council currently has a medium / long term financial plan however this has not been updated since May 2014. This is currently being updated to support the delivery of key Council priorities.

The absence of capital reserves is compensated by the borrowing headroom that exists.

The Council has a proven track record of delivering savings targets and robust cross-party processes for agreeing budgets. The Council is currently financially sustainable.

Financial position

- 62.** The annual accounts show that the Council has net assets of £862 million, a decrease of £200 million from last year, mainly attributable to:
- the increase in the pension liability of £214 million due to a decrease in the discount factor applied to liabilities (reduced from 3.5% to 2.6%)
 - an increase in property, plant and equipment valuation of £45 million split across a number of asset classifications
 - a reduction in net current assets of £35 million primarily due to the increase in short term borrowing.
- 63.** The Council incurred positive net cash flows from operating activities of £65 million. There is a significant shortfall in current assets over current liabilities of £265 million, a position that has worsened by £35 million since last year. As noted in the bullet point above, this is primarily due to the Council's current borrowing policy where they are using short term arrangements to take advantage of the low interest rates compared to long term borrowing.

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

Financial sustainability

Reserves

- 64.** One measure of the financial health of a local authority is the level of reserves held, reflecting the capacity for a council to respond to unexpected events, including short term funding issues. The level of usable reserves held by the Council decreased from £91 million in 2015/16 to £84 million in 2016/17. The general fund reserve is the largest reserve (£57 million), with a proportion of this earmarked for specific purposes. The Council considers the level of its general fund reserve when setting the budget each year. The non-earmarked element of the fund, also known as the general fund contingency reserve, provides a working balance to meet unexpected

expenditure and to help cushion the impact of uneven cash flows. As part of the 2017/18 budget setting process the general fund contingency reserve level was reduced from £12 million to £8 million due to the reduced financial risk to the Council now that the North Lanarkshire Integration Joint Board is operational and able to hold reserves that could address short term events in adult health and social care services.

- 65. [Exhibit 7](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows an overall reduction in the general fund reserve.

Exhibit 7

Analysis of general fund reserve over last five years

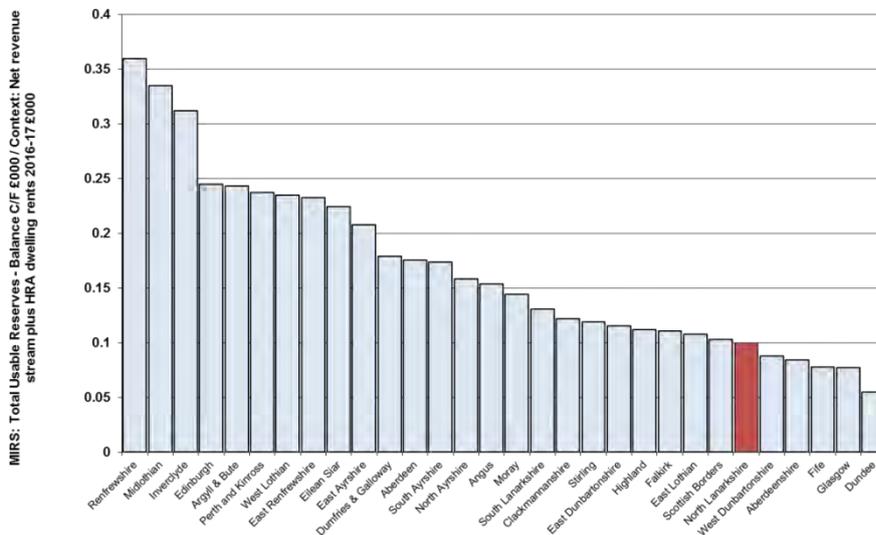


Source: North Lanarkshire Council Accounts 2012/13 to 2016/17

- 66. The Council has a relatively low level of usable reserves in comparison to its net revenue stream as outlined in [Exhibit 8](#). This is consistent with many of the other larger councils.

Exhibit 8

Useable reserves relative to the size of council's net revenue

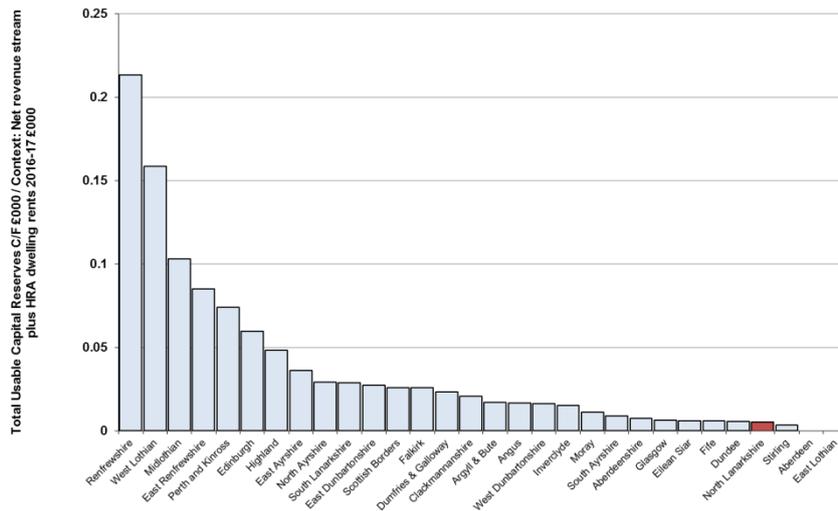


Source: 2016/17 unaudited financial statements (excluding Shetland and Orkney Islands Councils)

67. The Council has a very low level of capital reserves ([Exhibit 9](#)) compared to most other councils which means that any funding of capital projects is not drawn from existing reserves, but is dependent either on government grants, funding from current revenue resource or new borrowing. We comment further on this at paragraph 70 below.

Exhibit 9

Capital reserves relative to the size of council's net revenue



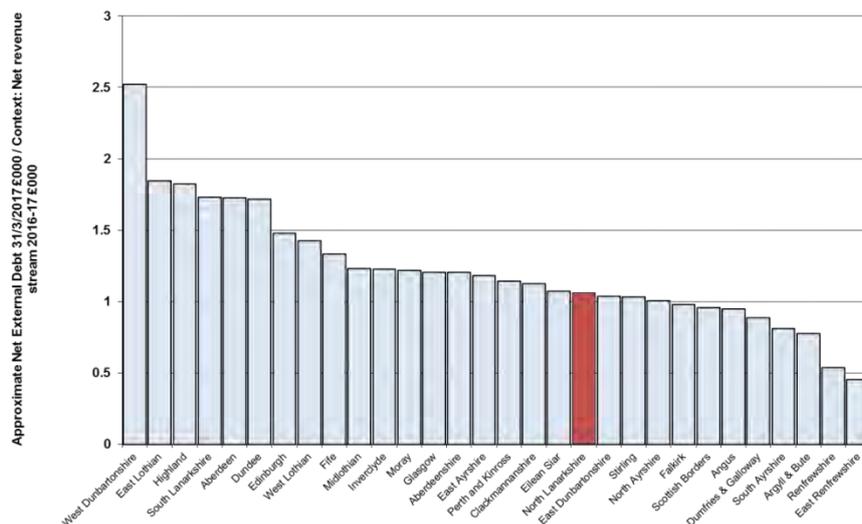
Source: unaudited financial statements 2016/17

Treasury management

68. At 31 March 2017, net external debt was £763 million (borrowing and finance leases offset by cash and investments). This has increased from last year (£724 million) by £39 million. The level of total borrowing is relatively low compared to other councils based on size ([Exhibit 10](#)).

Exhibit 10

Net external debt relative to the size of council's net revenue

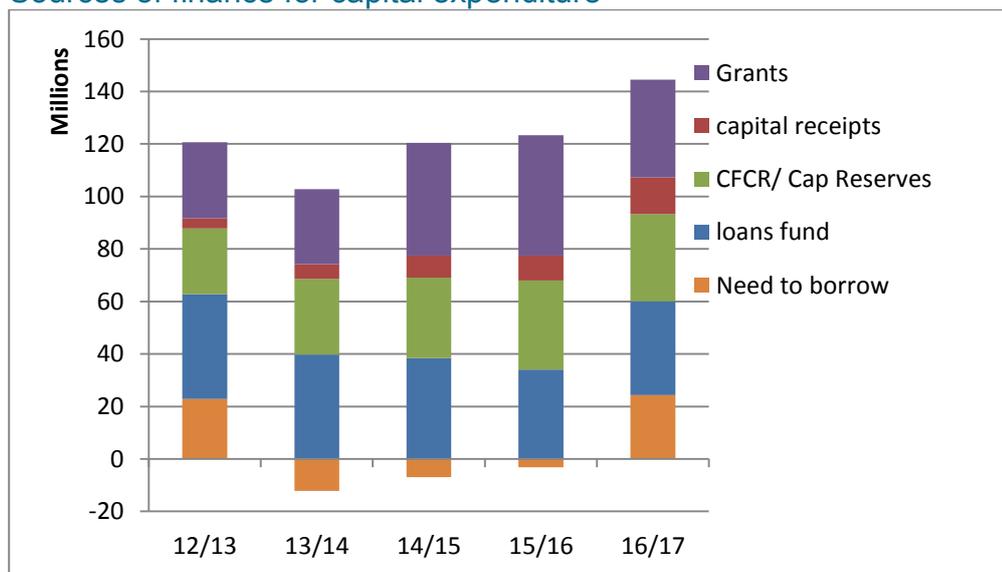


Source: 2016/17 Unaudited financial statements

- 69.** The cost of servicing this debt was 11% of net revenue expenditure. Again this is a relatively low level compared to other Scottish councils.
- 70.** A core element of the Council's policy on capital funding has been capital funded from current revenue (CFCR) and internal loans funds repayments from services. These contribute over 50% of the capital expenditure funding. The Council has not needed to increase its external borrowing (with the exception of replacement Greenfaulds High School NPD HUB scheme in 2016/17) in the last four years. The full analysis of capital financing is shown in [Exhibit 11](#).

Exhibit 11

Sources of finance for capital expenditure



Source: North Lanarkshire Council Accounts 2012/13 to 2016/17

Financial planning

Budgetary setting process

- 71.** As part of the budget setting process the Council consults citizens and service users on the financial plans and savings options. In June 2016 the Council agreed a new strategic approach to budgeting with a supporting framework to identify future savings and an overarching governance structure to support its delivery. The new approach included:
- a service prioritisation exercise to identify the extent to which current activities support the five priority outcomes
 - the establishment of a Sounding Board, comprising cross-party representation, to develop and implement the service prioritisation process to support the production of a balanced budget
 - a transformation committee to govern the process of implementing savings.
- 72.** We have concluded that the new approach to budget setting is robust.
- 73.** The Council is facing a number of challenges in maintaining a sustainable financial position in the future. These include rising demands for services,

increasing costs of services and pressures on central government funding. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's priorities.

74. The Council's long term financial strategy (2014/15 to 2023/24) was approved in May 2014. The strategy is consistent with the requirements set out in [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014) and considers a range of scenarios and the associated savings required to present a balanced budget. The intention was that the Council would review its long term financial plan as new information became available. The updating of this long term financial strategy was delayed until June 2017 to align with the incoming new political administration and the Scottish Government's planning Spending Review, but is now underway.

Action plan (Appendix 1, point 5)

2017/18 funding position and savings

75. The Council approved its 2017/18 budget in February 2017. The budget continued the council tax freeze and includes a 2017/18 savings gaps of £36 million comprised of:
- £17.5 million of savings where action had already been identified, including £8.7 million of base budget adjustments and £5.3 million from structure reviews
 - £7.6 million of savings as a one year savings target with the detailed proposals included in the approved budget paper
 - £11 million use of reserves on a one off basis.
76. Revenue monitoring reports for 2017/18 (period 3) identify that the Council is projecting an underspend of £1.3 million due to saving in loans charges as part of the treasury management arrangements.
77. As outlined in paragraph 42, the Council achieved a significant proportion of the identified savings in 2016/17 and this was supplemented with alternative savings options to support the year end position. For 2017/18 the Council is already reporting a likely delivery of planned savings of £20.6 million (82.4%) (of the £25.1 million savings required outlined above). The savings that are unlikely to be delivered are primarily due to delays in implementing new staffing structures and reconfiguring services. The Council has confirmed that action is underway to identify and deliver alternative savings to bridge the gap.

Overall opinion on financial sustainability

78. The absence of capital reserves is compensated by the borrowing headroom that exists. We believe that additional pressures on revenue funding could conceivably reduce the revenue funding that services are currently applying to fund capital projects, but this could be replaced with affordable borrowing.
79. The council has a proven track record of delivering savings targets and robust cross-party processes for agreeing budgets. It is currently revising its long term financial plans. The council is currently financially sustainability on this basis.

Part 4

Governance and transparency



Main Judgements

The reporting of key internal investigations has not been provided promptly or fully to councillors via the Audit and Scrutiny Panel.

Historic examples of poorer business conduct in an ALEO of the Council came to light in 2016/17.

The Council's new committee arrangements are generally appropriate and support good governance.

An unsuccessful application to the Public Sector Network in May 2016 was not reported to senior officers or councillors and the Council has continued to connect to the PSN without a compliance certificate.

Business plan

- 80.** The Council has recently completed an overhaul of its planning and performance arrangements to shift the focus from services to outcomes. In December 2016 the Council published a [Business Plan to 2020](#) which identifies five priorities to bring together local needs and national priorities, namely:
- improve economic opportunities and outcomes
 - support all children to realise their full potential
 - improve the health and care of communities
 - improve the council's relationships with communities and the third sector
 - improve the council's resource base.
- 81.** The Business Plan outlines the programme of work required to deliver the priorities and is supported by a number of guiding principles. Performance of services is monitored and reported to committees throughout the year.

Transparency

- 82.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

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.

- 83.** The evidence that demonstrates the Council's commitment to transparency include:
- Members of the public can attend meetings of the full Council and other committees and the agenda, papers and minutes of these committee meetings are readily available on the Council's website.
 - The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and how to make a complaint.
 - The website provides details of the citizen's panel and how to join it as a means of influencing future service delivery arrangements.
 - The Council also makes its annual accounts, and the annual accounts of all subsidiaries, available on its website.
- 84.** However we note that reporting of key internal audit investigations into issues have not been provided promptly to councillors via the Audit and Scrutiny Panel. In one instance this was attributed to ongoing disciplinary processes and in another instance a summary of an investigation was provided without access to the underlying full report (the nature of these investigations are described at paragraphs 86 and 89). We believe that all internal audit reports should be made available in full to audit committees within a reasonable timescale of completion. These reports may have restricted public access in accordance with Schedule 7A of the Local Government (Scotland) Act 1973.

Action plan (Appendix 1, point 6)

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

- 85.** The Council has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also there are established procedures for preventing and detecting bribery and corruption including a Corporate Anti-Fraud Policy that incorporates a Fraud Response Plan. The Council has also updated the e-learning induction module to highlight employee responsibilities in relation to fraud.
- 86.** The previous external auditors highlighted individual issues with standards of conduct of members and officers, relating to the completeness of registers of interest disclosures and allegations in relation to the Council's procurement processes. The internal audit investigation into allegations of fraud and corruption within the Council's Corporate Property and Procurement section, referred to in the governance statement as detailed at paragraph 55, identified some issues with former officers receiving gifts and hospitality from contractors contrary to the Employee Code of Conduct.
- 87.** During 2016/17 we reviewed the registers of interest completed by councillors and found that the arrangements met basic requirements in most areas. However our review showed that, although councillors are reminded to review and update their register of interests every six months, this is not always clear from the dates shown with the information on the website. Councillors and senior officers also complete a declaration, where they advise on whether they are aware of any significant transactions between one of their interests and the Council. However, senior officers do not complete full registers of interest like those completed by councillors and we believe there is scope to extend the use of register of interests to senior officers across the Council, and potentially to officers involved in key activities such as procurement.

Action plan (Appendix 1, point 7)

- 88.** A report was presented to the Council on 22 June 2017 which outlined the outcome of proceedings of the Standards Commission meetings in relation to two former councillors. In both cases the decision was to censure both former Councillors in terms of the Ethical Standards in Public Life etc. (Scotland) Act 2000 Section 19 (1) (a).
- 89.** In 2015/16 the previous external auditor reported that the creation of a subsidiary (ECSA UK Limited) by the Council's arms length external organisation North Lanarkshire Leisure (NLL) had not been reported to a Council committee. The report also noted that the Leader of the Council did not include his involvement with ECSA UK Limited on his register of interests. During 2016/17 an investigation by internal audit into the background surrounding the issues highlighted by the previous external auditor identified historic examples of poor business conduct within NLL and these were reported in summary by the internal auditor in July 2017. "We identified a number of issues in respect of the establishment and operation of the two companies in the period 2011 to 2013. ...in our opinion, the necessity for, and the circumstances surrounding the setting-up of both companies were opaque, and the creation of neither was approved by, or reported to, the NLL Board. ...nor did the then NLL Chief Executive or Chairman declare their interests in these companiesthere were a number of significant weaknesses in the governance arrangements within NLL ...We also raised a number of issues about overseas travel." Separately, as a result of allegations made directly to Police Scotland by a member of the public, there was a police investigation into these matters which concluded that no criminality had been established.
- 90.** Since 2013, there have been a number of changes to the Board, to senior management and to the corporate governance arrangements within NLL and North Lanarkshire Council has significantly revised its approach to the governance of Arms Length External Organisations (ALEOs), including NLL. Particularly in relation to the establishment of the ALEOs and External Bodies Monitoring Sub-committee and introduction of co-ordinated officer support for ALEO activities. The terms of reference for this sub-committee can be accessed at <https://mars.northlanarkshire.gov.uk/egenda/images/att86203.pdf>.
- 91.** We are in discussions with officers about piloting an on line assessment tool for staff which will assess the risk of issues with, and increase awareness of, standards of conduct. This tool which we refer to as "Your Reputation at Risk" or "YR@R" we expect to pilot at North Lanarkshire Council before the end of the year.

Governance arrangements

- 92.** The Council is required to establish governance arrangements to ensure that its business is conducted in accordance with law and proper standards, that public money is safeguarded and that the adequacy and effectiveness of these arrangements is monitored.
- 93.** The Scheme of Administration was updated following the Council elections in May 2017. It sets out the committee structure that will be operating moving forward and outlines the terms of reference for each committee. As the Council had already restructured the service departments, it has also taken the opportunity to align the new committee structure with the new reporting arrangements.
- 94.** It is still early days for the arrangements, however we have concluded that the Council's new committee arrangements are generally appropriate and support good governance.

Internal audit

95. Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.
96. The internal audit function is carried out by an in house team. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
97. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: bank reconciliations, feeder system reconciliations, authorisation of journals and council tax discounts. Also, we considered internal audit report findings as part of our wider dimension work.

ICT risks

Your Business @ Risk (YB@R)

98. YB@R is a web-based survey that helps bodies assess risks to the effectiveness of their information governance policies. YB@R provides a snapshot of whether an organisation's information governance policies are achieving their objectives and helps avoid the possibility of data loss.
99. During April and May 2017, all users of ICT facilities within the Council (approximately 5,000 staff) were invited to participate in the web based survey to assess their awareness of security issues and their role in reducing risk to the organisation. A total of 697 staff completed the 2017 survey - a response rate of approximately 15%, which is lower than the normal response rate of 30% and suggests that more could be done to engage with staff and ensure they recognise the importance of information governance.
100. The full results of the survey have been provided to Council staff to enable further analysis of the data. The results indicate a good level of information governance awareness, however there are some key areas, such as password control and locking computers when leaving them unattended, where the Council needs to continue to develop and reinforce understanding in order to improve overall staff awareness of information security.
101. The Council has confirmed a number of actions that will be implemented to address the weaknesses identified by the survey results.

Action plan (Appendix 1, point 8)

Public Sector Network

102. The Public Services Network (PSN) is the UK government's high-performance network. Public bodies wishing to connect are required to submit an application together with an independent ICT health check. If the submission meets the assessors' standard then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard.
103. In May 2015 the Council was granted a compliance certificate for 12 months with an action plan. In May 2016 the PSN application did not meet the assessor's standard and the Council was given an action plan without a compliance certificate. The initial timeline to complete the action plan was September 2016, however work is still ongoing to address the points raised and no timescale has been set for resubmission to the PSN assessors.

- 104.** We have established that the unsuccessful PSN application in May 2016 was not reported to senior officers or councillors and that the Council has continued to connect to the PSN during this period without a compliance certificate being in place.

Action plan (Appendix 1, point 9)

Integration of health and social care

- 105.** The North Lanarkshire Integration Joint Boards (NLIJB) is provided in partnership with NHS Lanarkshire and became fully operational on 1 April 2016. The financial transactions of the NLIJB have been consolidated into the Council's group accounts for the first time this year.
- 106.** In December 2015, we published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms have the scope to address barriers to providing the right care for people closer to home, however we recognised the significant challenges including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. We will carry out a second audit in 2018 to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

Correspondence received - Lender Option Borrower Option

- 107.** During the year we received correspondence on a number of council's using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.
- 108.** North Lanarkshire Council has around £39 million of these standard LOBOs within its market debt portfolio, totalling £98 million. In addition to these, it also has £10 million of inverse LOBOs, where the interest rate paid varies in relation to the specific market rate. These inverse LOBOs were taken out in 2009/10 in line with the Council's treasury management strategy, to mitigate the Council's exposure to potential rising interest rates.
- 109.** In following up this correspondence we have held discussions with senior Council officers and their treasury advisers, reviewed the Council's treasury management strategy and obtained supporting papers including an analysis of the LOBOs held and comparable PWLB rates of interest.
- 110.** Based on our work we can conclude that the:
- use of LOBOs has been undertaken in line with the Council's treasury management strategy, which has been reviewed and approved annually by councillors
 - interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time
 - option to propose or impose a new fixed interest rate has never been exercised by the lenders
 - potential for debt restructuring is kept under regular review as part of the Council's treasury management arrangements.

111. There are no issues we wish to raise in this report.

Equalities

112. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

113. We reviewed the key Council documents including the Mainstreaming Equality Report 2017, Equality Outcomes 2017-21 Performance Management Framework and Employment Information 2017. We have concluded that the Council has met its statutory duty to report:

- progress made in mainstreaming equality within the Council
- progress made towards achieving equality outcomes published in 2013
- annual employee information and details of the progress made in gathering and using information to better meet the duty
- updated gender pay gap information.

Equal Pay

114. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government.

115. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA), and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. North Lanarkshire Council implemented single status in November 2006 and reports that between 2004/05 and 2015/16 it has spent £130 million compensating workers who had been unfairly paid and settling equal pay claims.

116. Almost 27,000 equal pay claims across Scotland remain live and North Lanarkshire Council still has 2,429 live claims. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. The Council has an approved Equal Pay Policy Statement which sets out their approach to ensuring equality of pay in line with legal requirements.

117. We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

Part 5

Value for money



Main judgements

During 2016/17 the Scrutiny Panel completed real time performance reviews of Education, Skills and Youth Employment, Enterprise and Housing Resources and Infrastructure.

The Council will publish the 2016/17 annual performance report in October 2017. Overall we concluded that the Council's arrangements for publication are satisfactory.

Best Value

- 118.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for North Lanarkshire Council is planned for later in the five year programme.
- 119.** The Best Value audit work carried out this year focused on the Council's arrangements for demonstrating Best Value in financial planning and financial governance and resource management. The findings of this work were included in our interim report and are also reported above. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

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

Local scrutiny plan

- 120.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was finalised in May 2017. It was presented to the Audit and Scrutiny Panel on 28 June 2017. The LAN did not identify any new scrutiny risks which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Performance management

- 121.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.
- 122.** The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the

2015/16 reporting period. This has been reviewed by the Council to assess their overall performance.

- 123.** During 2016/17 the Scrutiny Panel was responsible for challenging and scrutinising the performance of departments. The review programme comprises the following 5 aspects:
- an overview of the service provided by the respective Head of Service
 - an overlay of the performance information against the service overview
 - a real time review of the latest performance results using Perform NL, the Council's performance management system, including a review of trends and national comparisons
 - consideration of the alignment with the Council's priorities
 - identifying and agreeing recommendations to be taken forward.
- 124.** During 2016/17 the Scrutiny Panel completed real time performance reviews of Education, Skills and Youth Employment (including a feedback report highlighting progress on improvement actions identified during the initial review), Enterprise and Housing Resources and Infrastructure. Recommendations were provided at department level and individual service level to improve the performance information being collated and ensure it is fit for purpose and contributes to the delivery of the Council's priorities.
- 125.** The Scrutiny Panel has now merged with the Audit and Governance Panel to create the Audit and Scrutiny Panel.

Statutory performance indicators (SPIs)

- 126.** 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.
- 127.** For 2016/17 two SPIs were prescribed:
- SPI 1: covering a range of information relating to areas of performance such as improving local services, improving local outcomes, engaging with communities and achieving Best Value.
 - SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 128.** The Council will publish the 2016/17 annual performance report in October 2017. Overall we concluded that the Council's arrangements for publication are satisfactory.

Following the public pound

- 129.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding arms length external bodies (ALEOs) and following the public pound.
- 130.** The Council has established an ALEOs and External Bodies Monitoring Committee which met for the first time in May 2016. The Committee is responsible for:
- monitoring the ALEOs' financial, service and operational performance

- ensuring effective governance arrangements are in place
- examining the ALEO's strategies, policies and future plans
- scrutinising the performance of ALEOs and periodically reviewing whether they remain the best service delivery option.

131. Audit Scotland is currently carrying out a performance audit of Scottish councils' use of ALEOs and has selected the Council, alongside a number of others, for a more in depth look at the arrangements. The report is due to be published in Spring 2018.

132. We concluded that the Council has established good arrangements for monitoring the performance of ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

National performance audit reports

133. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 4](#).

134. The Council has processes in place to ensure that findings from national reports are presented to the Audit and Scrutiny Panel. This reporting includes an assessment of current arrangements against good practice examples and the identification and agreement of actions to ensure further improvements.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Para no.	Issue / risk	Recommendation	Agreed management action / timing
30	<p>1. Group accounts process</p> <p>We identified a number of issues with the current process for preparing group accounts.</p> <p>Risk – The group accounts are materially misstated due to consolidation issues.</p>	<p>The Council should review the group accounts process and introduce consolidation schedules / questionnaires to ensure they have sufficient arrangements in place to support the preparation of the group accounts.</p>	<p>The arrangements currently in place for finalising the Council's Group Accounts will be reviewed with consideration given to the specific issues raised in preparation for the closure of the 2017/18 Accounts.</p> <p>Paul Hughes, Head of Business for Financial Solutions</p> <p>March 2018</p>
33	<p>2. Accounting for surplus assets</p> <p>There are two aspects of revaluation of non current assets per the Accounting Policies that are not being applied in practice.</p> <p>Risk – Asset disposals and surplus assets will be incorrectly valued and classified in the financial statements</p>	<p>Property staff should provide updates to finance staff during the year to enable asset sales to be correctly accounted for in accordance with IFRS05/ IFRS13. In addition finance staff should ensure the valuation of all in-year asset reclassifications is subject to review.</p>	<p>A review of the current valuation arrangements in place with Property will take place with necessary improvements implemented for the closure of the 2017/18 Accounts.</p> <p>Paul Hughes, Head of Business for Financial Solutions</p> <p>March 2018</p>
34	<p>3. Management commentary</p> <p>The management commentary could provide more information on the financial outturn against budget and achievement of savings to improve the transparency of financial reporting.</p> <p>Risk – The management commentary is inconsistent with other financial information impacting on the overall transparency.</p>	<p>The management commentary disclosures should be reviewed to ensure they support the reader of the accounts in understanding how the year end position relates to the budget set at the start of the year.</p>	<p>We will work with External Audit to identify where improvements can be made for implementation in the 2017/18 Accounts.</p> <p>Paul Hughes, Head of Business for Financial Solutions</p> <p>March 2018</p>



Para
no.

Issue / risk

Recommendation

Agreed management
action / timing

<p>42</p>	<p>4. Internal reporting</p> <p>The financial reporting details the expected use of earmarked reserves during the year, however the reporting does not reflect the actual year end position or the planned contribution to reserves during the year.</p> <p>Risk – councillors are unable to scrutinise the use of earmarked reserves.</p>	<p>The reporting of reserves should be reviewed to ensure that it reflects the planned use of and contribution to each reserve.</p>	<p>The reporting of reserves will be reviewed to ensure a more comprehensive picture of the general fund position is provided to elected members.</p> <p>Paul Hughes, Head of Business for Financial Solutions</p> <p>June 2018</p>
<p>74</p>	<p>5. Medium and long term financial planning</p> <p>The long term financial strategy has not been updated since it was approved in May 2014. In addition the Council has recently moved from the preparation of a 2 year financial outlook to a condensed 1 year process in response to the short term financial challenges being faced.</p> <p>Risk – the lack of medium and long term financial planning impacts on the financial sustainability.</p>	<p>We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary.</p>	<p>The Council's 5 Year Financial Plan has been updated and is due to be reported to Policy & Resources Committee on 21 September 2017.</p> <p>Paul Hughes, Head of Business for Financial Solutions</p> <p>September 2017</p>
<p>84</p>	<p>6. Internal audit reporting</p> <p>Internal audit investigation reports are not always provided promptly or in full to the Audit and Scrutiny Panel.</p> <p>Risk – councillors are unable to properly scrutinise the findings of internal audit investigations.</p>	<p>All internal audit reports should be made available in full to Panel members.</p>	<p>Unlike many other Scottish authorities, the Council already operates a long-established practice of transparency by publishing in full all planned Internal Audit outputs as part of the Audit and Scrutiny Panel papers and this will continue.</p> <p>As regards investigation reports, the Head of Audit and Inspection will discuss this issue with key stakeholders as part of the planned review of the Internal Audit Charter. The revised Charter, that will be approved by the Audit and Scrutiny Panel, will include a proposed protocol for how future investigative reports will be reported.</p> <p>Ken Adamson, Head of Audit and Inspection</p> <p>February 2018</p>

Para no.	Issue / risk 	Recommendation 	Agreed management action / timing 
87	<p>7. Registers of interest</p> <p>There is currently no requirement for senior officers to complete a registers of interest.</p> <p>Risk – officers interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p>	<p>Senior officers should complete registers of interest at least annually and consideration should be given to extending this to other staff as appropriate.</p>	<p>Disagree.</p> <p>In the absence of a statutory basis for such a register, management considers that current arrangements designed to mitigate this risk are proportionate and effective.</p> <p>The requirement for Chief Officers and other employees to be sensitive to and aware of the need to avoid and / or highlight potential conflicts of interest is explicitly addressed in their respective Code of Conduct.</p> <p>The need for staff to avoid and / or declare any potential conflicts of interest is also a key part of many operational processes in service areas as diverse as planning and procurement.</p> <p>In addition, issues relating to ethics and integrity, including minimising the potential for any perception of conflicts of interest, are also a key feature of professional standards which apply to many Council staff.</p> <p>Agreed action – none.</p>
101	<p>8. Information Governance actions</p> <p>In some key areas, such as password control and locking computers when leaving them unattended, there is a need to improve overall staff awareness of information security</p> <p>Risk – Information security may be compromised in the period before the automatic lockout takes place.</p>	<p>The Council has confirmed a number of actions that will be implemented to address the weaknesses identified by the YB@R survey results.</p>	<p>Remedial actions arising from YB@R survey have been identified and will be implemented. Progress against plan is being monitored via the Information Assurance Working Group with reporting to the Core CMT and Committee.</p> <p>Peter Tolland, Customer and Information Governance Manager</p> <p>April 2018</p>



Para
no.

Issue / risk



Recommendation



Agreed management
action / timing

104 **9. PSN compliance**

An unsuccessful PSN application in May 2016 was not reported to senior officers or councillors and the Council has continued to connect to the PSN during this period without a compliance certificate being in place.

Risk: Internal governance processes do not identify significant issues and access to other government systems is withdrawn affecting the efficiency of the council's operations.

The issue should be summarised and reported to senior officers and committee. An action plan should be prepared and monitored to achieve compliance with PSN.

The Council remains committed to achieving full compliance and a detailed action plan, which includes a number of different projects, has been prepared and is currently being implemented. Progress against plan is being monitored via the Information Assurance Working Group with reporting to the Core CMT and Committee. A further health check will be undertaken in December 2017, with any additional issues arising being added to the action plan.

Peter Tolland, Customer and Information Governance Manager

September 2017

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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>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"> • 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>Results – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p>Conclusion – No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>North Lanarkshire Council receives a significant amount of income, approximately 40%, from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> • Walk through of controls within income systems. • Analytical procedures on income streams. • Detailed testing of revenue transactions. 	<p>Results – We did not identify any significant issues from our testing of income controls and transactions.</p> <p>Conclusion – No fraud issues were identified.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice 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"> • 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>Results – We did not identify any significant issues in our testing of expenditure controls, although we reported areas where controls could be strengthened. Our testing of transactions and our work on National Fraud Initiative matches did not identify issues.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a 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"> • Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and actuary. • Focused substantive testing of provisions focusing on the appropriateness of the valuation for equal pay. 	<p>Results – We did not identify any issues from our work on the professional valuer and actuary. We identified some issues with asset valuations, but these were isolated and not material for the accounts. Our substantive testing of provisions found that they were appropriately valued.</p> <p>Conclusion – No issues identified with the valuation of material account areas.</p>
<p>5 Highway 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"> • 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>Results – At its meeting in March, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of HNA into the financial reporting requirements for councils.</p> <p>Conclusion – No requirement to recognise HNA in the accounts.</p>
<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"> • 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>Results – We identified a number of issues with the current consolidation process, however audit work concluded that these did not have a material impact on the accounts. Assurances were obtained from component auditors in accordance with our planned audit approach.</p> <p>Conclusion – The accounts are not materially misstated and the Council has agreed to review the group consolidation arrangements for next year.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7 Revised financial statements 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 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>	<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. 	<p>Results – Our audit work on the restructuring of the CIES confirmed that the new disclosure was complete and accurate and that the categorisation was consistent with internal reporting.</p> <p>Conclusion – No issues identified with the restructuring of the CIES except for inconsistency across Scottish Authorities. We think there is further scope to review implementation across Scotland during 2017/18.</p>
<p>8 Loans Fund Accounting</p> <p>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"> 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. 	<p>Results – We did not identify any significant issues in our testing of loans fund arrangements and transactions.</p> <p>Conclusion – No issues were identified from our audit work.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>9 Financial sustainability</p> <p>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"> Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning. 	<p>Results – Updating of the long term financial strategy was delayed until June 2017.</p> <p>Conclusion – The Council currently has a medium / long term financial plan, however this has not been updated since May 2014. This is currently being addressed and has been identified in our action plan.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>10 Financial management</p> <p>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"> 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. 	<p>Results – An underspend of £13 million was achieved during the year. 83% of identified savings were delivered with a further 12% from alternative savings options.</p> <p>Conclusion – Financial monitoring in 2016/17 was robust.</p>
<p>11 Governance and transparency</p> <p>ICT security</p> <p>North Lanarkshire Council identified instances of attempted ransom-ware attacks during 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.</p>	<ul style="list-style-type: none"> Completion of 'Your Business @ Risk' Security Survey. Further assessment of ongoing cyber security risks. 	<p>Results – 'Your Business @ Risk' survey is now complete and results shared with officers.</p> <p>Conclusion – The Council has confirmed a number of actions that will be implemented to address the weaknesses identified by the survey results.</p>
<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"> 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. 	<p>Results – Audit testing found that the process for identifying related parties for the accounts was not robust enough. Further work was undertaken to identify omitted transactions. We assessed that the register of interests met basic practice.</p> <p>Conclusion – The related parties disclosures in the accounts are not materially misstated and our action plan recommends extending the register of interests.</p>

Appendix 3

Summary of unadjusted errors

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	CIES		Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
1	Revaluation of assets at disposal				
	Gain on disposal of non-current assets	1.1			
	Revaluation reserve				1.1
2	Accounting for HRA voids				
	HRA Dwelling Rent Income	0.8			
	HRA Repairs and Maintenance Expenditure		0.8		
3	Accounting for subsidiary audit adjustments				
	Subsidiaries Expenditure		1.7		
	Subsidiaries Income	1.6			
	Group Reserves			0.1	
4	Intra-group elimination				
	Short-Term Debtors			2.4	
	Short-Term Creditors				2.4
	Net impact – Net expenditure	1.0			
	Net impact – Net Assets			1.0	

Appendix 4

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

North Lanarkshire Council

2016/17 Annual Audit Report

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