

South Lanarkshire Council

Audit Plan 2020/21



 AUDIT SCOTLAND

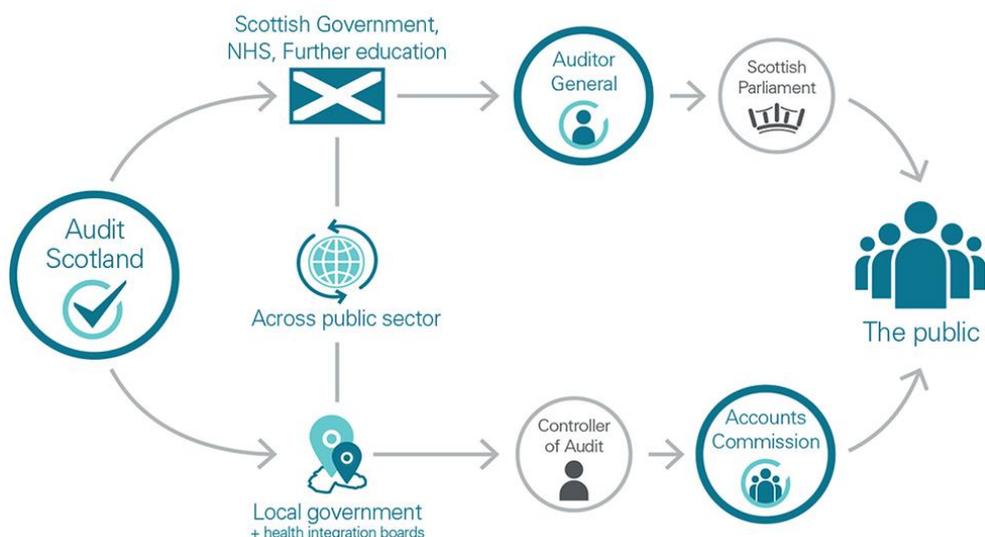
Prepared for South Lanarkshire Council

February 2021

Who we are

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

- The Auditor General is a 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

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

Introduction

1. This audit plan provides an overview of the planned scope and timing of our audit of South Lanarkshire Council for 2020/21. Our audit is carried out in accordance with International Standards on Auditing and the [Code of Audit Practice](#), issued by Audit Scotland.
2. The plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit. The wider scope of public audit includes assessing arrangements for financial sustainability, financial management, governance and transparency, and value for money. We make a public report of conclusions on these matters in our annual audit report to members and the Controller of Audit.

Impact of Covid-19

3. Audit Scotland is responding to the risks to public services and finances from Covid-19 across the full range of audit work, including annual accounts audits and the programme of performance audits. A January 2021 paper, [Covid-19: What it Means for Public Audit in Scotland - Update](#), restates the principles and approach we are taking following the reintroduction of significant restrictions in Scotland.
4. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The safety of audit teams and client staff and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We seek to add value to the council by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the council promote improved standards, better management and decision-making, and more effective use of resources.

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the key audit risks for South Lanarkshire Council, [exhibit 1](#). We have categorised these risks into financial statement risks and wider dimension risks.

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of management assurance	Planned audit work
Financial statement risks		
<p>1 Risk of management override of controls</p> <p>Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.</p>	<ul style="list-style-type: none"> In view of the nature of this risk, assurances from management are not appropriate. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. 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>Auditing standards assert that fraud over income should be presumed to be a significant risk in any audit. Residual income arises from diverse fees and charges. Taking account of controls in place, the nature of the council's income and the limited scope for the manipulation and extraction of income we assess that the risk of material misstatement arising from fraud over income is limited.</p>	<ul style="list-style-type: none"> Most income is received via electronic payment. Robust controls over the receipt of other income. 	<ul style="list-style-type: none"> Most council funding is from central government, local taxation and rent receipts received via direct bank payment. These income streams are readily reconciled to underlying documentation and systems. The risk of material misstatement is not significant, and our testing will be limited. For other income streams we will test a sample of transactions.
<p>3 Risk of fraud over expenditure</p> <p>Audit Scotland's Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of fraud over expenditure.</p>	<ul style="list-style-type: none"> Involvement in National Fraud Initiative. Robust controls over expenditure streams. Internal audit ongoing review of procurement. 	<ul style="list-style-type: none"> Payroll expenditure is well forecast and will be reconciled to the payroll system, For other non-pay expenditure, we will test a sample of transactions.
<p>4 Covid-19 funding and financial flexibilities</p> <p>Councils are receiving additional funding to cover Covid-19 costs. The council is responsible for approving and distributing various grants relating to the Covid-19 disruption from this funding.</p> <p>In addition, councils have been given the option to apply some financial flexibility options to</p>	<ul style="list-style-type: none"> Processes have been developed to ensure that robust eligibility checks were undertaken ahead of Covid-19 grant payments. All reasonable internal controls have been applied within the constraints of the need to pay grants 	<ul style="list-style-type: none"> Review of any Scottish Government and CIPFA/LASAAC guidance. Discussions with management during the year to consider the accounting treatment. Review of disclosures in annual accounts and ensure that this is

 Audit Risk	Source of management assurance	Planned audit work
<p>mitigate some of the impact of Covid-19.</p> <p>As yet, no clear guidance has been issued as to how all of these items should be presented in the council's annual accounts.</p> <p>Risk: The grant funds are vulnerable to fraud by external parties.</p> <p>Presentation in the annual accounts is not consistent with (expected) guidance.</p>	<p>within a very short timeframe.</p> <ul style="list-style-type: none"> Internal Audit have supported the development of processes and assisted with the ongoing review of Covid-19 grant payments. The 2020/2021 NFI exercise contains some Covid-19 datasets and will provide a further level of assurance around controls in place to mitigate fraud. 	<p>consistent with any guidance issued.</p> <ul style="list-style-type: none"> Review of the controls in place for the payment of grants, with emphasis on the business support stream. Review of the work of internal audit on grant payments and possible reliance thereon.
<p>5 Estimation and judgments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of some material balance sheet assets/liabilities.</p> <ul style="list-style-type: none"> Valuations on non-current assets rely on expert valuations and management assumptions. The value of the council's pension liability is an estimate based on information provided by management and actuarial assumptions. The council's provision for doubtful debts is based on management assessments of the recoverability of debts. <p>Risk: Valuations of assets /liabilities are materially misstated.</p>	<ul style="list-style-type: none"> Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. Pension Fund valuation completed by a qualified actuary with the applicability of actuarial assumptions used reviewed by council officers. Provision for doubtful debts based on aged debt approach, incorporating prior year experience. 	<ul style="list-style-type: none"> Review of the work of the valuer and actuary. Focused substantive testing of classification and valuation of assets. Review appropriateness of actuarial assumptions. Confirm pension valuations in actuarial report are correctly reflected within the 2020/21 accounts. Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience. Review actual experience of significant estimates made in the prior year.
<p>6 Accounting for non-current assets</p> <p>Over the course of our audit appointment we have identified several issues with the council's accounting treatment for non-current assets.</p> <p>Risk: The asset register is inaccurate.</p> <p>Assets are materially misstated in the annual accounts.</p>	<ul style="list-style-type: none"> A review of the Fixed Asset Register and its accounting will take place during the year. Detailed guidance will also be issued across Resources and training supplied where necessary. 	<ul style="list-style-type: none"> Detailed testing of non-current asset balances, including testing of additions, disposals and depreciation to confirm the accuracy of the asset register.

**Audit Risk****Source of management assurance****Planned audit work****Wider dimension risk****7 Financial sustainability**

The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the council and its partners. Inevitably there will be additional cost burdens to the council on top of the immediate response to the Covid-19 crisis. Council priorities may need to change. As the council reinstates services, this is likely to require, expenditure beyond that in the budget and financial plans will need to be revised accordingly.

- Reporting of Covid-19 spend has been made consistently to the council's Executive Committee since Summer 2020.
- The council works closely with Cosla, Scottish Government and Directors of Finance regarding the finance / funding for Covid-19. This is in relation to the current year position, but also next year.
- The potential cost of Covid-19 into 2021/22 as well as the funding/financial implications for that year have been reviewed. This includes looking at funding sources and fiscal flexibilities.

- Monitor how the council's budget is affected in 2020/21 and the impact on medium/longer term financial planning. Comment as appropriate in the annual audit report.
- Monitor the council's performance reports to establish the impact of Covid-19 on services.
- Monitor the additional funding provided to South Lanarkshire Leisure and Culture Ltd to secure its future.

Source: Audit Scotland

The audit of charities administered by South Lanarkshire Council

7. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts and require an accompanying auditor's report. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. A full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

8. Members of South Lanarkshire Council are sole trustees for three registered Scottish charities, with combined assets of some £0.982 million. Following our recommendations in previous years, the council has prepared and approved new arrangements for the administration of the three charitable trusts under its control. The new arrangements were approved by the Office of the Scottish Charity Regulator (OSCR) in December 2019. In early 2020, the council began the process of transferring the assets to the new charities, however, progress was interrupted by the Covid-19 disruption.

9. In previous audit plans we included a risk that governance arrangements were weak and inhibited the distribution of funds for public benefit. Management have advised that the new arrangements will be in place by the end of the current financial year. In view of this assurance we have not repeated this risk in the

current audit plan, however, we will consider what further progress has been made and include appropriate commentary in our annual audit report.

Grant claims and returns

10. The council is required to make various grant claims and returns to UK or Scottish Government departments. Such claims and returns require to be audited prior to submission. We will perform testing and provide audit certificates in accordance with guidance issued by Audit Scotland. We have planned for the following claims and returns in 2020/21:

- Housing benefit subsidy claim
- Non-domestic rate income return
- Education maintenance allowances
- Whole of government accounts return

Where unexpected claims or returns are received or supporting working papers are not adequate, a supplementary fee may be requested.

Reporting arrangements

11. This audit plan, the outputs set out at [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk

12. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

13. We will provide an independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide members and the Controller of Audit with an annual audit report, containing observations and recommendations on significant matters which have arisen during the audit.

14. The 2020/21 audit planning guidance sets sign-off deadlines for all local government audits of the end of October 2021 and the dates included at [exhibit 2](#) are based on this deadline. If issues arise during the course of the audit that mean this is not practical (i.e. impact of Covid-19 on the production or audit of accounts), then we will communicate this to the council at the earliest opportunity available and agree a revised timetable for the completion of the audit.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Risk and Audit Scrutiny Committee Date
Interim Management Report	30 June	22 June
Annual Audit Report	31 October	27 October
Independent Auditor's Report	31 October	27 October

The target dates included are those specified in Audit Scotland's Planning Guidance 2020/21.

Audit fee

15. The agreed audit fee for the 2020/21 audit of South Lanarkshire Council is £511,150 (2019/20 fee £498,970). 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.

16. We have also agreed an audit fee for the audit of the three registered charities of £5,425 (2019/20 fee £5,425).

17. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or inadequate working papers, 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

Risk and Audit Scrutiny Committee and Executive Director of Finance and Corporate Resources

18. Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity. In South Lanarkshire Council the Executive Director of Finance and Corporate Resources is the proper officer, with responsibility for the administration financial affairs (section 95 officer).

19. The council has delegated responsibility for the oversight of internal and external audit to its Risk and Audit Scrutiny Committee.

Appointed auditor

20. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice and the auditing profession's ethical guidance. Auditors appointed by the Accounts Commission give independent opinions on the financial statements and other information within the annual accounts.

Audit scope and timing

Annual accounts

21. The audit of the annual accounts will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing local government and the wider public sector. Our audit approach includes:

- understanding the business of South Lanarkshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include them in the financial statements
- assessing how weaknesses in the key systems of internal control could impact on the financial statements
- 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 from material misstatement.

22. We will give an opinion on whether:

- the annual accounts give a true and fair view of the state of affairs of the council and the income and expenditure for the year
- the annual accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- the annual accounts have been prepared in accordance with relevant legislation.

Statutory other information in the annual accounts

23. We also review and report on the management commentary, governance statement and remuneration report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

Materiality

24. We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).



Exhibit 3 Materiality levels

Materiality	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 based on the audited accounts for the year ended 31 March 2020.	£12.660 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 50% of planning materiality.	£6.330 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 1% of planning materiality.	£0.125 million

Source: Audit Scotland

25. We set separate materiality levels for the audits of the charities' annual accounts, [exhibit 4](#).

Exhibit 4 Charity materiality levels

Trust	Planning materiality	Performance materiality	Reporting threshold
South Lanarkshire Council Charitable Trusts	£10,000	£7,500	£500
South Lanarkshire Council Educational Trusts	£1,300	£1,000	£100
East Kilbride Technology Centre Trust	£300	£200	£100

Source: Audit Scotland

Timetable

26. An agreed timetable is included at [exhibit 5](#) which takes account of submission requirements and planned Risk and Audit Scrutiny Committee meeting dates. While we will do our best to meet the target dates below, the dates will be subject to change if further issues arise from Covid-19 that impact on the council or the audit team.

Exhibit 5

Audit of annual accounts 2020/21 timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the Risk and Audit Scrutiny Committee	22 June
Latest submission date of unaudited annual accounts	30 June
Latest date for final clearance meeting with officers	27 September
Agreement of unsigned financial statements	27 September
Issue of proposed Annual Audit Report	13 October
Independent Auditor's Reports (council and three charities)	27 October
Issue of Annual Audit Report	

Source: Audit Scotland planning files

Internal audit

27. 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 at audited bodies.

28. South Lanarkshire Council's internal audit function is provided by its internal audit section led by the Audit and Compliance Manager.

29. Audit Scotland's [Code of Audit Practice](#) requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. Our assessment does not constitute an external assessment for the purposes of the Public Sector Internal Audit Standards (PSIAS) and should not be considered as such. The objectives of our annual assessment are:

- to establish the effectiveness of internal audit arrangements as part of the council's wider governance arrangements, and
- to identify areas of internal audit work upon which we can place formal reliance.

We concluded that the internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

Using the work of internal audit

30. We reviewed internal audit's planned work programme for 2020/21 to identify areas where we can potentially place reliance on internal audit's work. We do not plan to place reliance on internal audit work for our audit opinion on the financial statements

31. In respect of our wider dimension audit responsibilities we plan to consider the following:

- Conflicts of interest
- National Fraud Initiative

- Anti-fraud
- Procurement checks

32. The internal audit service sits within the remit of the Executive Director of Finance and Corporate Resources. There is a risk that this could impinge upon the Audit and Compliance Manager's actual or perceived ability to operate independently from the corporate finance function and that resources could be diverted from core internal audit duties. The council recognises and accepts the risk and mitigates it through the Internal Audit Charter, which provides the Audit and Compliance Manager with access to the Corporate Management Team and Risk and Audit Scrutiny Committee.

33. During the Covid-19 disruption, the internal audit service has been heavily involved in performing second officer checks on business support grants and a sample of grants is checked on a four-weekly basis. While the involvement in non-audit duties would normally be deemed to be undesirable, under the current circumstances, we view this as an important element in exerting compliance controls and reducing fraud risk over grant distribution. The Audit and Compliance Manager has advised that she has not encountered any material issues in being asked to undertake this duty. We will continue to monitor this during 2020/21.

Audit dimensions

34. Our audit is based on four audit dimensions which define the wider scope of public sector audit, [exhibit 6](#). Our conclusions on the four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 6 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

35. We consider the appropriateness of the use of the going concern basis of accounting as part of the audit of the financial statements. We also comment on the council's financial sustainability. We will carry out work and conclude on the following in 2020/21:

- the effectiveness of financial planning
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- monitoring the arrangements put in place by the council to minimise any disruption occasioned by the UK's withdrawal from the European Union.

Financial management

36. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review and report on:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established, including any changes to these controls as a result of Covid-19.

Governance and transparency

37. 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. We will assess:

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting
- whether governance arrangements are appropriate and operating effectively, including consideration of revised governance arrangements resulting from Covid-19.

38. The council's committee structure and local code of corporate governance regulates how the council discharges its commitment in normal times. As the national Covid-19 restrictions came into force the council took steps to ensure continuation of good governance and accountability. The council have not yet resolved how to make council meetings available to members of the public and media via internet streaming. We will monitor the council's progress in adopting a streaming solution for its meetings.

Value for money

39. Value for money refers to using resources efficiency and effectively. We will review, conclude and report on whether the council can provide evidence that it is demonstrating value for money in the use of its resources.

Best Value

40. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in a five-year period.

41. During 2018/19 a Best Value review of the council was completed. [The South Lanarkshire Council BVAR](#) was published March 2019. As reported in our 2019/20 Annual Audit Report we followed up on the council's progress with the recommendations raised in the BVAR. We noted that progress had been made against all ten recommendations, demonstrating the council's commitment to delivering Best Value through continuous improvement. We acknowledged that understandably progress, and reporting had been affected by Covid-19 disruption. Our work in 2020/21 will focus on following up on the recommendations noted as being ongoing from our 2019/20 review.

42. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in [exhibit 7](#). Reports will be considered by the Accounts Commission in the 2021.

Exhibit 7

2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	East Dunbartonshire Council

Source: Audit Scotland

Shared risk assessment of the Local Area Network

43. As part of our planning work we held a shared risk assessment meeting with the key scrutiny bodies of the council. We discussed the range of reports, published over the past year by scrutiny bodies including Education Scotland, the Scottish Housing Regulator and the Care Inspectorate.

Independence and objectivity

44. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

45. The engagement lead for South Lanarkshire Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Dave Richardson, 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 South Lanarkshire Council or the charitable trusts.

Quality control

46. International Standard on Quality Control 1 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.

47. 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 Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal and external quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) has been engaged to carry out an annual programme of external quality reviews.

48. 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 or to Audit Scotland’s Audit Quality and Appointments group.

South Lanarkshire Council

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