

North Lanarkshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for North Lanarkshire Council

April 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of North Lanarkshire Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Management Commentary, the Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review North Lanarkshire Council's arrangements for preparing and publishing statutory performance information
- review North Lanarkshire Council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help North Lanarkshire Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Scrutiny Panel and actively participate in discussions.

Respective responsibilities of the auditor and North Lanarkshire Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and North Lanarkshire Council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

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

North Lanarkshire Council responsibilities

8. The council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for North Lanarkshire Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for North Lanarkshire Council

Materiality	Amount	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£14 million	£14 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 assessed performance materiality at 50% of planning materiality.	£7 million	£7 million
Reporting threshold (clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of North Lanarkshire Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas and transactions with related parties. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focussed testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of land and buildings</p> <p>The council operates a five-year rolling programme of revaluations with whole asset classes</p>	<p>Use of clearly defined methodologies and procedures will enable an assessment to be made to ensure the</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Complete a walkthrough of the valuation process to obtain an understanding of the process,

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>being valued once every five years.</p> <p>Per the Accounting Code of Practice, this is acceptable “provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.”</p> <p>Last year the assessment of carrying value assets, based on a sample of school properties and review of housing properties indicated an understatement of £63.6 million, which was adjusted in the audited accounts.</p> <p>Leisure properties and open spaces are to be revalued in 2021/22. Major asset classes (school buildings and housing) have not been revalued for three and four years respectively.</p> <p>A new valuer was appointed from 2021/22.</p> <p>Management is required to assess the current values of other assets at the year end.</p> <p>There is a risk that the carrying valuer of assets not subject to valuations in 2021/22 will be materially misstated.</p>	<p>carrying value of assets does not differ materially from that which would be determined using the current value at the end of the reporting period.</p>	<p>including the methodologies and assumptions applied.</p> <ul style="list-style-type: none"> • Review of reports from the valuer to confirm overall asset valuation movements. • Obtain an understanding of the management’s involvement in the valuation process to assess if appropriate oversight has occurred. • Examine management’s assessment of any asset not revalued in 2021/22 against evidence of changes in other revalued assets. • Test the reconciliation between the financial ledger and the property asset register. • Sample testing of individual asset valuations and lives.

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have considered the risk of fraud over income recognition (ISA 240). We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

16. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that:

- There are generally no incentives for staff to commit fraudulent financial reporting
- Most income is provided by the Scottish Government and other public bodies and is easily verified
- Most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or board approval required for material transactions
- Evidence of external fraud from the National Fraud Initiative does not indicate material risks
- Experience in the sector and of the audit of North Lanarkshire Council, including a review of past misstatements.

17. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- Valuation of the present value of promised retirement benefits and North Lanarkshire Council's share of the pension asset/liability of Strathclyde Pension Fund. We will consider the reasonableness of actuarial estimates on material elements of the valuation and the accuracy of information provided to the actuary by the council.

- The accounting treatment and process for the in-sourcing of Culture and Leisure North Lanarkshire Limited (CLNL Ltd). CLNL Ltd was previously two separate subsidiaries of the council. Transactions have been processed through, and balances are still held, on a separate ledger to the council's main accounting system. We will review the process and controls in place for transferring balances into the council's financial ledger; review the accounting treatment at the year-end and include transactions and balances relating to CLNL Ltd in our sample testing.

Group Consideration

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. North Lanarkshire Council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion. We note that the council is currently procuring auditors for the North Lanarkshire Properties Limited subsidiary and at the time of writing no auditor is in place.

Audit of the trusts registered as Scottish charities

22. Members of North Lanarkshire Council are sole trustees for the JC McNaught Poor Children's Holiday Fund and the North Lanarkshire Council Educational Endowments trusts registered as Scottish charities. 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.

23. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. 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. Therefore, 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.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

24. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
JC McNaught Poor Children's Holiday Fund	£74 (Based on 1% of audited 2020/21 net asset value)	£67 (Based on 90% of planning materiality)	£4
North Lanarkshire Council Educational Endowments trusts	£203 (Based on 1% of gross expenditure)	£183 (Based on 90% of planning materiality)	£10

Source: Audit Scotland

25. There are no specific risks for these audits which we require to bring to your attention.

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual

audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Best Value

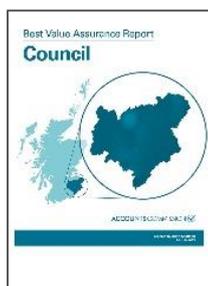
30. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the council overall.
- an Annual Assurance and Risks Report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports.
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once over the period of the audit appointment.

31. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5

2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

32. The Best Value work planned this year will focus on following-up findings reported in North Lanarkshire Council's Best Value Assurance Report in May 2019. We will assess progress on the pace and depth of continuous improvement and our findings will be reported through our Annual Audit Report.

Audit dimension risks

33. Based on our risk assessment process, we have not identified any audit risk in respect of our wider dimensions work.

34. We will follow up on the recommendations we made in our 2020/21 Annual Audit Report and report progress in delivering agreed actions in our 2021/22 Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

35. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

37. We will provide an independent auditor's report to the council and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide North Lanarkshire Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

38. [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. The Audit and Scrutiny Panel meeting date in October 2022 has yet to be confirmed.

Exhibit 6 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2022	Agreed by correspondence
Independent Auditor's Report	31/10/2022	TBC
Annual Audit Report	31/10/2022	TBC

Source: Audit Scotland

Timetable

39. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

40. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

41. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit. We note that there have been changes to finance officers responsible for key areas of the financial statements. We will work closely with these officers and engage early to ensure any issues are identified promptly.

Exhibit 7

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	30 June 2022 (TBC)
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Director of Finance (or equivalent)	7 October 2022 (TBC)
Issue of Letter of Representation and proposed Independent Auditor's Report	14 October 2022 (TBC)
Agreement of audited and unsigned annual report and accounts	October 2022 (TBC)
Issue of Annual Audit Report to those charged with governance.	October 2022 (TBC)
Signed Independent Auditor's Report	31 October 2022

Source: Audit Scotland

Audit fee

42. The proposed audit fee for the 2021/22 audit of the council is £540,526 (2020/21: £530,310). 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.

43. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

44. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

45. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. For our wider audit responsibilities, we will consider the findings of internal audit across a range of work including:

- council tax
- payroll and
- housing rents.

Independence and objectivity

46. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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.

47. The engagement lead (i.e., appointed auditor) for the council is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and

objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of North Lanarkshire Council.

Quality control

48. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

49. 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](#) (and supporting guidance) 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 quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

North Lanarkshire Council

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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