

North Lanarkshire Council

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of North Lanarkshire Council and the Controller of Audit

9 December 2021

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Key messages

2020/21 annual accounts

- 1 Our audit opinions are unmodified
- 2 Adjustments were made in the audited accounts to reflect PPE and testing kits supplied to the council during Covid-19 and non-current asset valuations were increased by £64 million to reflect estimated current values

Financial management and sustainability

- 3 The council increased its General Fund by £82 million due to loans fund rescheduling and £29.5 million of Covid-19 funding carried forward
- 4 The council paid out £68 million in grants to individuals and businesses impacted by Covid-19
- 5 The General Fund budget for 2021/22 includes Covid Recovery spending plans and the council is on track to deliver its budget and most of its savings
- 6 The medium-term financial plan identifies a forecast budget gap of £109 million over the period 2022/23 to 2026/27 which has been reduced to £92 million following action already taken by the council

Governance, transparency and Best Value

- 7 Culture, sport and leisure services were successfully in-sourced in April 2021
- 8 Good progress has been made to address recommendations in the Best Value Assurance Report

Introduction

1. This report summarises the findings arising from the 2020/21 audit of North Lanarkshire Council (the council) and its group. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the Audit and Scrutiny Panel in March 2021. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of the annual accounts of the council and its group including the two section 106 charities administered by the council and the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- a review of the council's progress in implementing the recommendations contained in our Best Value Assurance Report published in May 2019
- consideration of the four audit dimensions.

Adding value through the audit

3. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £530,310 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts of the council, its group and the two section 106 charities administered by the council are unmodified

Adjustments were made in the audited accounts to reflect PPE and testing kits supplied to the council during Covid-19 following the late publication of guidance and non-current asset valuations were increased by £64 million to reflect estimated current values

Our audit opinions on the annual accounts are unmodified

13. The accounts for the council and its group for the year ended 31 March 2021 were approved by the Audit and Scrutiny Panel on 9 December 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance

14. Our audit opinions on Section 106 charities were also unmodified. These covered the 2020/21 statement of accounts of North Lanarkshire Council Educational Endowments and the JC McNaught Poor Children's Holiday Fund.

The Covid-19 pandemic had some impact on our audit work

15. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

16. We found that the council's second officer checks of council tax and non-domestic rates discounts and reliefs were paused for a period during 2020/21, as staff were re-directed to the processing of Covid-19 related business grants.

We also noted that some officer checks were more difficult to complete due to the restrictions of working from home, this included quality reviews of the fixed asset register. We increased our substantive testing of these transactions to obtain the necessary assurances.

The annual accounts were signed off later due to continuing impacts of Covid-19 on the audit and additional valuation work

17. North Lanarkshire Council published and provided the unaudited accounts to audit on 30 June 2021 in accordance with the original timescale. These were formally considered by the Audit and Scrutiny Panel at its meeting on 2 September 2021.

18. The audited accounts were approved by the Audit and Scrutiny Panel meeting on 9 December 2021. We continued to audit remotely and Covid-19 has impacted on the volume of audit work and the time taken to complete our audit, due in part to the legacy of 2019/20 impacts of Covid-19.

19. The council also had to undertake additional work to support a review of non-current asset valuations. This occurred quite late in the audit process and as a result of both of these factors completion timescales were pushed back.

There were no objections to the annual accounts

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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. There were no objections from the public to the 2020/21 accounts.

Overall materiality is £14 million

21. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

22. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£14 million
Performance materiality	£7 million
Reporting threshold	£250 thousand

Source: Audit Scotland

Our audit work addressed the risks of material misstatement

24. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Accounts were revised to reflect our significant findings

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported a number of issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Accounting for the General Revenue Grant</p> <p>The General Revenue Grant (GRG) included £1.9 million for three income streams from the Scottish Government for Covid-19 that were initially treated as service income in line with the LASAAC guidance available at the time of preparing the financial statements. This guidance was subsequently revised to treat these items as General Grant, rather than service income.</p>	<p>Audited accounts were updated to recognise the income as GRG rather than service income in line with the guidance.</p>

Issue	Resolution
<p>2. Accounting for PPE</p> <p>Due to the late publication of guidance and availability of information, unaudited annual accounts did not account for Covid-19 PPE equipment and testing kits. These were supplied, free of charge, to local authorities in 2020/21 by National Services Scotland (NSS).</p> <p>NHS NSS data on PPE issued to community hubs were not agreed until the end of June.</p> <p>LASAAC guidance to practitioners in July 2021 advised on the accounting treatment of PPE and testing kits.</p>	<p>Audited accounts were updated to recognise the receipt and use of this equipment in 2020/21.</p> <p>In accordance with guidance, an additional £1.1 million of income and expenditure is disclosed in audited accounts. There was no net impact on the council's reserves and balances.</p>
<p>3. Non-Current Asset valuations</p> <p>The council operates a five-year rolling programme of revaluations with whole asset classes 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>Our review identified that, although in line with previous practice, some valuations had not been updated for three years on major asset classes (school buildings and housing) and that no assessment had been undertaken to determine if these asset values differed materially from current value.</p>	<p>The council completed a review of the estimated increase in BCIS rebuild costs since the last valuation for a sample of 15 schools to assess current value. Schools represent the majority of the building properties by value. The review identified an increase of 4.8 per cent since the last valuation.</p> <p>A review was also completed of council dwelling valuations. The council looked at buy-back prices of 108 properties in 2020/21 to determine an up to date valuation for houses. This identified a valuation increase of 1.25% since 2018.</p> <p>The audited accounts have been adjusted for the increase in value of these assets of £63.6 million.</p> <p>Recommendation 1</p> <p>The council should assess annually whether the carrying value of assets is materially different from current value.</p> <p>Refer to Appendix 1</p>
<p>4. Non-Current Asset accounting</p> <p>Sample testing identified incorrect application of values for an asset which was revalued in year. The amounts to be charged to the revaluation reserve and the comprehensive income and expenditure account were transposed.</p>	<p>Audited accounts have been adjusted to correctly account for these non current asset transactions.</p> <p>Recommendation 2</p> <p>The council should complete a detailed quality review of its fixed asset register at</p>

Issue	Resolution
<p>£2.1 million of assets were also transferred out of assets under construction before work was complete.</p> <p>There were other minor errors in the fixed asset register which resulted in the net book value per the unaudited financial statements being overstated by £1.3 million.</p>	<p>each year end to identify any errors which could feed into the financial statements.</p> <p>Refer to Appendix 1</p>

All identified misstatements were adjusted in the accounts

26. Total misstatements identified were £71.8 million. These mainly consist of the non current asset valuation adjustment, adjustments to income and expenditure as a result of the late publication of Covid-19 related LASAAC guidance and errors in capital accounting.

27. The valuation adjustments to land and buildings and council dwellings have been applied across the whole population of these categories of assets. We also reviewed the fixed asset register in its entirety for non-depreciated assets and sampling of assets for existence. Any errors we identified were either identified in their entirety or not considered material where we had to project errors in samples to the whole population.

28. Adjustments for PPE and testing kits and GRG are as a result of specific late guidance and have been subject to review by the auditors of National Services Scotland and as part of the audit of the council, with the council fully complying with the guidance. We considered the need for and performed further audit procedures as required to respond to these issues and have concluded that the identified misstatements do not indicate further systemic error.

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. All misstatements above our reporting threshold have been adjusted for in the audited accounts.

30. It is worth noting that the auditor of Culture and Leisure North Lanarkshire Ltd has included an emphasis of matter paragraph in the audit opinion as the accounts were prepared in a non-going concern basis due to the in-sourcing of these services to the council.

Good progress was made on prior year recommendations

31. The council has completed the three prior year recommendations. This is shown in [Appendix 1](#).

2. Financial management

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

Main judgements

The council increased its General Fund by £82 million due to loans fund rescheduling and £29.5 million of Covid-19 funding carried forward

The council paid out £68 million in covid grants to businesses and individuals on behalf of the Scottish Government

The Council has a track record of delivering savings and has developed a three-year savings plan

In 2020/21 capital projects were limited to essential and legally committed expenditure.

Covid-19 had a substantial impact on some of the council's group bodies and the council provided financial support

The council increased its General Fund by £82 million due to loans fund rescheduling and additional Covid-19 funding

32. The council approved a General Fund Revenue Budget of £828 million in March 2020. The total service underspend against budget was £27 million. The more significant under and overspends are summarised in [Exhibit 3](#). The council also achieved an underspend of £15.8 million corporately through management of its borrowing and a review of its loans fund advance repayments policy. A significant proportion of the surplus was attributable to late and unspent Covid-19 funding from the Scottish Government.

Exhibit 3

Summary of significant service under/overspends against budget

Area	£m	Reason for variance
Underspends		
Education and Families	£7.9	Significant underspend in employee costs due to delays in recruitment and the phasing of external

Area	£m	Reason for variance
		funding and reduction in activity in relation to transport and plant activities.
Overspends		
Enterprise and Communities	£5.8	Net additional costs for Covid-19 of £8.3 million and reduced income from school meals, special uplifts, letting and rentals. There were also increased supplier relief costs for roads and property partners.
Chief Executives and Other Corporate Serves	£2.3	Non-achievement of savings, mainly in the approved DigitalNL programme and the under-recovery of the PPP volume discount income and across a range of income generating activity. The service incurred net additional Covid-19 costs of £4 million.

Source: North Lanarkshire Council 2020/21 Outturn Report

33. The council surplus includes a £13.3 million surplus on HRA services. This was largely as a result of reduced property costs due to the temporary cessation of non-essential repairs during lockdown.

34. Other reasons for the significant surplus include the over-recovery of temporary accommodation rental income, reduced borrowing costs linked to reduced average loans fund rates together with the loan debt reprofiling and a carry forward of ambition funding.

35. £24.5 million of the HRA balance has been approved for specific purposes. These include £8.3 million for temporary accommodation, £5.1 million on Council Ambition and £2.5 million to fund increased demand for housing repairs. [Exhibit 4](#) provides an analysis of the general fund and HRA over the last five years.

Covid-19 had a significant impact on the 2020/21 budget

36. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy.

37. The council reported a gross cost of Covid-19 in 2020/21 of £49.5 million. The council received additional Covid grant funding of £76 million and set aside council funds of £3.1 million resulted in a surplus of £29.5 million attributed to Covid-19 and to be carried forward for use in 2021/22.

38. Funding received included £26.8 million of general Covid-19 funding as well as net £5.1 million received as part of the Scottish Government's Loss of Income scheme.

39. The £29.5 million surplus attributed to Covid-19 is being carried forward in the council's earmarked reserves to be spent on Covid-19 in 2021/22. £3.5 million has been earmarked for tackling financial insecurity as a result of Covid-19 and is made up of various funding streams which are expected to be spent in 2021/22. £1.886 million has been earmarked for additional teachers and £1.7 million is earmarked to support remote learning. An additional £6.5 million of the general fund surplus has also been earmarked for Covid-19 in 2021/22.

A Budget Group was set up to monitor the financial position throughout the year

40. The council monitors the budget position through the year by monthly budget monitoring reports to the Corporate Management Team and quarterly reports taken to the service committees and the Finance and Resources Committee.

41. As a result of Covid-19, financial monitoring reports were not presented to every monthly CMT meeting. The council introduced additional financial controls and governance arrangements through specific finance reports to the full Council and the Policy and Strategy Committee.

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

43. We concluded that budget monitoring reports provided an overall picture of the budget position at service level. The reports forecast the outturn position for the year and include good narrative explanations for significant variances against budget. This allowed both members and officers to carry out effective scrutiny of the council's finances.

The council paid out £68 million in covid grants to businesses and individuals on behalf of the Scottish Government

44. In response to the pandemic, the Council administered a number of grant schemes on behalf of the Scottish Government. The Council made grant payments of £68 million in 2020/21.

45. The Small Business Support Grant was administered by the council's revenues team, with a total of £39.5 million paid out to qualifying businesses. A further £20.9 million was paid out by the council through the Strategic Framework Business Fund (SFBF) and subsequent Retail, Hospitality and Leisure Support Grant.

46. £8.1 million was also paid to businesses and individuals through several smaller funding schemes including the Taxi and Private Hire Vehicle fund and several hardship grants.

47. We reviewed the arrangements and controls implemented by the council for processing grant applications to ensure only eligible applicants received payments and concluded that these were appropriate.

There has been a significant increase in the level of General Fund reserves as a result of Covid-19 funding

48. The level of usable reserves held by the council increased from £95 million in 2019/20 to £186 million in 2020/21. The general fund is the largest usable reserve and is used to support the delivery of services. The net general fund surplus for 2020/21 was £68 million. This surplus is significantly higher than previous years due to additional 2020/21 Covid-19 funding from the Scottish Government which remains unspent at 31 March 2021.

49. General fund reserves of £116.7 million include £36 million of Covid-19 earmarked funding and £35.8 million earmarked for specific future commitments such as early years and childcare expansion (£11.3 million), pupil equity fund (£3.9 million) and digitisation (£2.9 million).

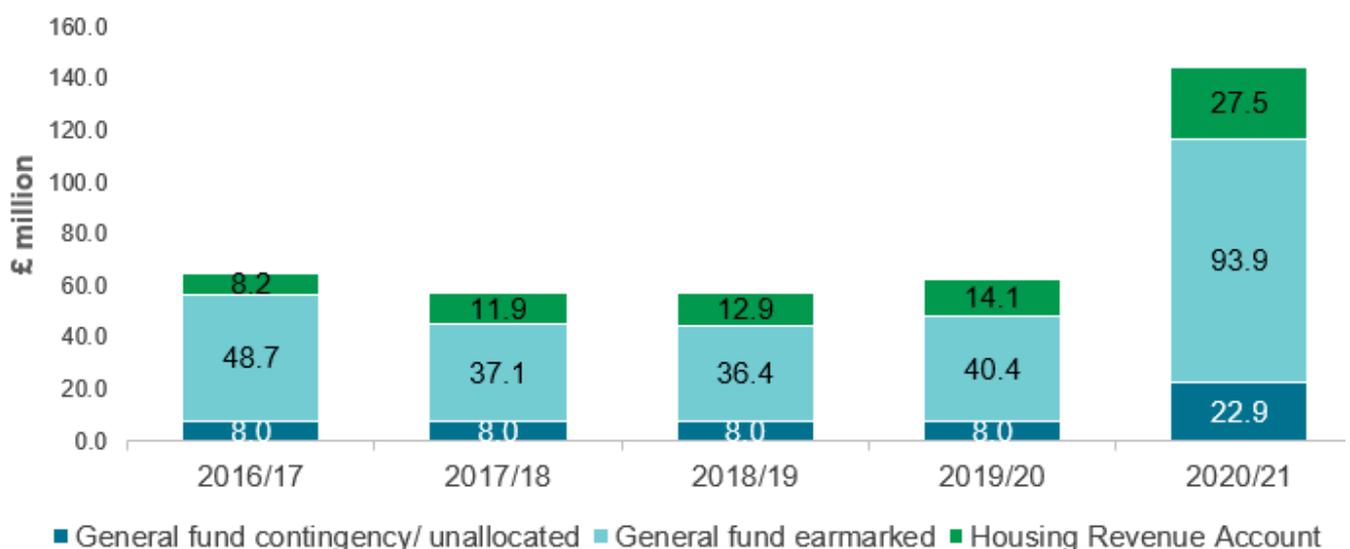
50. The unearmarked general fund balance of £22.9 million includes the council's £8 million contingency which is held to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

51. [Exhibit 4](#) provides an analysis of the general fund and HRA over the last five years.

Exhibit 4

Analysis of general fund and HRA balances

General Fund reserves have increased due to covid-19 unspent funding



Source: North Lanarkshire Council's 2016/17 to 2020/21 Annual Accounts

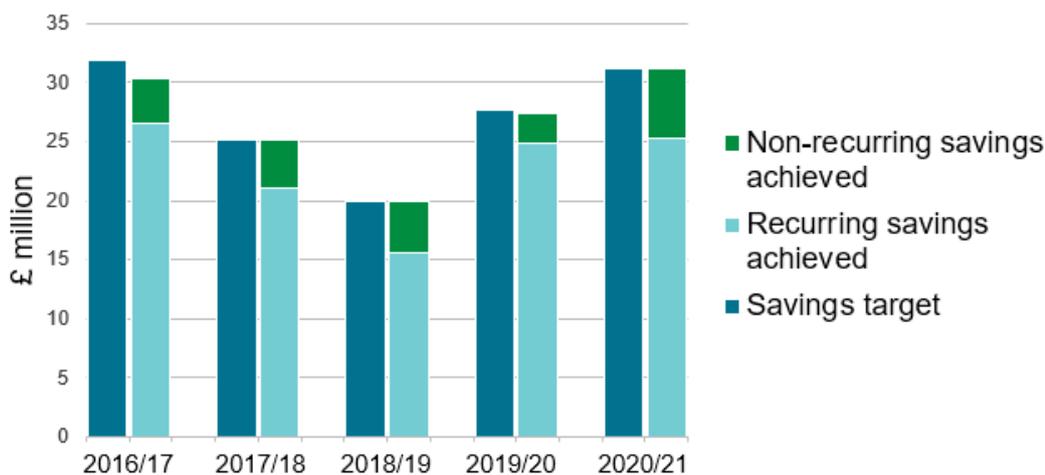
The Council has a track record of delivering savings and has developed a three-year savings plan

52. In February 2020 the council approved a three-year savings programme of £59 million, alongside the budget setting process.

53. For 2020/21 the council achieved £25 million (81 per cent) of savings against an approved target of £31 million. The shortfall was dealt with by in-year alternative savings and management action, such as vacancy management and curtailment of spending, some of which was non-recurrent.

54. As illustrated in [Exhibit 5](#), the Council has a successful track record of delivering savings, with total cumulative savings since 2016/17 of around £135 million with over £100 million on a recurring basis.

Exhibit 5 Savings – recurring and non-recurring The Council has a track record of delivering savings



Source: North Lanarkshire Council's 2016/17 to 2020/21 Annual Accounts

In 2020/21, capital projects were limited to essential and legally committed expenditure

55. 2020/21 was the third year of the Council's 5-year capital programme which was developed by the Strategic Capital Delivery Group (SCDG) and approved by the Policy and Resources Committee in March 2018. Total capital expenditure in 2020/21 was £133 million (£65 million related to general services and £68 million to the housing revenue account). The outturn was a £58 million underspend on budgeted capital expenditure.

56. In July 2020, following the national lockdown in response to the Covid-19 pandemic, the council undertook a review of all existing capital expenditure legal commitments and essential expenditure requirements. Following this

review a decision was taken by the Strategic Capital Delivery Group (SCDG) to fund only essential and legally committed capital programme expenditure in 2020/21.

57. It was also agreed that a revised Strategic Capital Investment Plan for 2021/22 to 2025/26 would be developed by the SCDG. The new plan was approved by the Policy and Strategy Committee in March 2021. The new plan includes planned capital expenditure of over £500 million over the five-year period and is aligned to the Plan for North Lanarkshire and the Programme of Work.

Covid-19 had a substantial impact on some of the council's group bodies and the council provided financial support

58. North Lanarkshire Council has a substantial group structure. Subsidiaries, associates and joint ventures provide key services on the council's behalf. Covid-19 has had a considerable impact on the ability of these bodies to deliver services and on their financial position.

59. Culture and Leisure NL (CLNL) Ltd had to close its leisure facilities to the public due to the national lockdown, resulting in a significant number of employees being placed on the UK Government's Coronavirus Job Retention Scheme (furlough). The restrictions had a significant impact on CLNL's financial performance with the Council granting supplier relief payments of £6.7 million. The council was able to reduce financial support to CLNL as restrictions eased and income increased, the furlough scheme was extended, and non-essential expenditure was paused.

60. At the start of the national lockdown in March 2020, Amey Public Services (APS) LLP and MEARS delivered restricted services in roads and lighting and housing and property maintenance, concentrating solely on emergency works. This resulted in staff having to be furloughed in both organisations. From July 2020 onwards APS was largely able to return to undertaking its full contractual responsibilities. The Council provided supplier relief payments to APS totalling £2.6 million during the restricted service period.

61. MEARS worked with the Council to implement a structured approach that allowed all employees to return to work safely by October 2020. In December 2020 MEARS returned to providing emergency and external works only. Despite an increase in works to vacant council house properties to enable these to be re-let quickly, the overall reduction in work volumes, coupled with limited redeployment or alternative work requirements, required MEARS to reintroduce furlough measures for a number of its workforce to 31 March 2021.

The council revised its Loans Fund repayments

62. The council revised its Loans Fund Advance Repayments Policy during 2020/21. This was approved by Finance and Resources Committee on 26 November 2020 and has been incorporated within the Treasury Management Strategy. The council has applied a fixed average life to all loans fund advances and revised the annuity rate used to calculate loans fund advance repayments from services.

63. We reviewed the revised approach and found it to be in line with the relevant guidance. The council made initial savings in 2020/21 of £15.8 million.

Financial systems of internal control generally operated effectively but our review identified some key control risks

64. We identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

65. Our findings were included in our management report that was presented to the Audit and Scrutiny Panel on 30 June 2021. We concluded that the key controls were generally operating effectively, however at the time of testing the council had not yet implemented a robust payroll validation process for all council services, to enable them to confirm the staff on the payroll system. Positive validation reports have since been implemented for all services annually from July 2021 and we have updated the brought forward recommendation in Appendix 1 to 'complete'.

66. We also found that second officer checks on council tax and non-domestic rates reliefs and awards were paused in 2020/21 given the increased workload on the team due to administering Covid-19 grants. To obtain the required audit assurances we revised our audit approach as detailed in our management report (Refer to [Appendix 1](#)).

Recommendation 3

The council should ensure that second officer checks on council tax and non-domestic rates reliefs are reinstated

The council has made good progress in investigating NFI matches

67. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council has taken a risk-based approach to the investigation of matches. Significant progress has been made in investigations for this NFI cycle.

3. Financial sustainability

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

Main judgements

The General Fund budget for 2021/22 includes Covid Recovery spending plans.

The council is on track to deliver its budget and most of its savings

The medium-term financial plan identifies a forecast budget gap of £109 million over the period 2022/23 to 2026/27 which has been reduced to £92 million following action by the council

68. The General Fund budget for 2021/22 includes Covid Recovery spending plans. The 2021/22 General Fund budget of £849 million was approved on 2 March 2021. This included expenditure which is offset by ring fenced grants of £51 million, resulting in an opening budget position for Net Service Expenditure of £798 million.

69. The council then revised the budget to £845 million following the incorporation of the Covid Recovery Budget, additional Scottish Government funding, implementation of the Real Living Wage in Adult Social Care and the expansion of universal free school meals. The 2021/22 budget also includes £20 million of savings targets.

70. There is a separate Covid Recovery Budget covering 2021/22 and 2022/23. This was prepared by the Chief Executive and Section 95 Officer with the cross-party Recovery Group acting in an advisory capacity. The budget forecasts resources over the period of £69.8 million, net costs of £60.7 million and one-off investments of £9.2 million.

71. The council budgeted for Covid-19 costs of £66.3 million in 2021/22. These costs are to be met by earmarked Covid-19 funding of £28.7 million, 2021/22 GRG funding of £23.9 million and reserves of £6.5 million.

The council is on track to deliver its budget and most of its savings

72. Budget monitoring reports to the Finance and Resources Committee identify a projected surplus against budget of £10.8 million for 2021/22. The council also currently projects it will achieve £16 million of the savings required, with the shortfall of £4 million achievable from the following financial year.

The medium-term financial plan identifies a forecast budget gap of £109 million over the period 2022/23 to 2026/27 which has been reduced to £92 million following action by the council

73. In September 2021 the Policy and Strategy Committee considered the revised Medium-Term Financial Plan (MTFP) 2022/23 to 2026/27.

74. The plan includes a range of risk-based outcomes which are presented over three scenarios; optimistic, envisaged and pessimistic. The Council's financial projections to 2026/27 forecast an envisaged funding gap of £109 million, or £92 million after action already taken, over the next five years. The envisaged funding gap over the next three years is £54 million.

75. The MTFP is updated annually and forms the basis of the council's savings plans. The latest plan assumes the achievement of the three-year savings programme of £59 million approved in February 2020. Council officers will be working with elected members to present options for potential solutions in each of the financial years so that the Council can set a balanced budget as required.

76. The council has made progress in working towards setting a three-year rolling budget. The 2021/22 budget also provided members with an updated financial forecast for 2022/23 and 2023/2024. The council used the funding gaps identified in the medium-term financial plan and updated these for known movements in cost pressures, approved savings and base budget adjustments.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

Culture, sport and leisure services were successfully in-sourced in April 2021

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

77. As part of our audit process we are continually assessing the governance arrangements within North Lanarkshire Council. Our previous year's conclusion is still relevant: that appropriate governance arrangements are in place.

78. In our 2019/20 Annual Audit Report we reported on the impact of Covid-19 restrictions on the council's governance arrangements. From August 2020, the committee structure has resumed and meetings have been held remotely since then, allowing members to resume appropriate scrutiny and challenge.

79. Remote meetings restrict wider attendance at committees; however the relevant papers were still available on the website to support transparency and since October 2020 all meetings have been livestreamed for the wider public to view. The Council's website also allows the public to access a wide range of information including how to contact the Council or make a complaint.

Culture, sport and leisure services were in-sourced in April 2021

80. Culture and Leisure NL (CLNL) Limited was officially formed in June 2019 as a result of the merger of the Councils two "arms length external organisations" (ALEOs): Culture NL Limited and North Lanarkshire Leisure Limited.

81. At the January 2020 Policy and Strategy Committee the Council approved the insourcing of the delivery of Culture, Sport and Leisure services currently provided by CLNL. The decision followed an ALEO service review and a requirement for the CLNL strategy to be more aligned to the Plan for North Lanarkshire.

82. A report was presented to the Policy and Strategy Committee in March 2020 setting out the indicative process, timeline and actions for bringing these services in-house on 1 April 2021. The Council has established a working group comprising senior finance officers from the Council and CLNL Limited to consider the implications for financial administration, including financial systems and financial governance.

83. A further update was presented to committee in December 2020 to advise members of progress in each of the five workstreams and a separate report was presented to the Community Empowerment Committee in August 2020 to consider the impact of Covid on the transfer of services.

84. A significant part of the process was the transfer of CLNL Ltd employees to the council. This had to be completed in line with the Transfer of Undertakings (Protection of Employment) Regulations 2006. The council is now focussed on the recovery of culture and leisure services in line with the easing of Covid-19 restrictions with plans provided to the Policy and Strategy committee in March 2021.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Good progress has been made to address recommendations in the Best Value Assurance Report

Covid-19 affected performance reporting, but there is a new Business Intelligence Hub with the aim of increasing capacity to collect and report on performance information

Good progress has been made to address recommendations in the Best Value Assurance Report

85. Last year we carried out a follow-up review on the council's progress against each of the recommendations made in the Best Value Assurance Report published in May 2019. As reported in our Management Report presented to the Audit and Scrutiny Panel in June 2021, we selected a sample of four of these recommendations and carried out a further review on progress.

86. From this work we concluded that the following BVAR recommendations are considered complete:

- Revised strategies, policies and plans should be developed to deliver the programme of work that underpins the council's ambitious vision, based on its five priorities.
- Performance information on the council's website should be kept up to date to improve accountability to the public.

87. Since reporting in June 2021, the council has achieved the full Investors in People accreditation and this recommendation is now considered complete. We have also now completed a review of the recommendation for the council and its partners to develop locality plans. The nine locality plans have now been finalised and are available on the council's website. Therefore, this recommendation is also considered as complete.

88. Exhibit 6 summarises our assessment of each of the outstanding recommendations. We have updated our assessment on the recommendation on improvement plans from self-evaluation exercises, but the remaining assessments are from our follow up work in 2019/20.

Exhibit 6

Progress on Best Value Recommendations

BVAR Recommendation	Summary of progress
<p>The Council should implement the recently approved Performance Management Framework and reporting schedule to support the delivery of the Plan for North Lanarkshire and its scrutiny by members.</p>	<p>Following approval of the 'Strategic Performance Framework', the reporting arrangements for this were approved by the Corporate Management Team in October 2019. Within the framework, there are different levels of indicators which have been mapped to the Council's ambition statements and aligned to the 'Strategic Policy Framework' and Programme of Work.</p> <p>These frameworks and plans underpin the Plan for North Lanarkshire and therefore this alignment helps support the delivery of this. In-depth reviews have been carried out by Elected Members through the Audit and Scrutiny panel and other reports have been presented to service committees.</p> <p>Good progress has been made.</p>
<p>The Council should investigate and better understand the reasons for falling satisfaction levels within social care and whether they can apply learning from the high satisfaction levels in housing.</p>	<p>The Business Solutions team convened a 'short life task and finish group' to understand the specifics of this recommendation. This has highlighted the high levels of tenant participation and engagement in housing, which feeds service improvement.</p> <p>Part of the Digital NL project is the creation of the Business Intelligence Hub, which includes functionality for analysis of feedback from employees and customers through a link to the customer service hub. The Council plans to use the good practice identified in housing from the customer service hub to develop business intelligence and apply this across the Council.</p> <p>Reasonable progress has been made.</p>
<p>Workforce plans should be finalised to set out the current and future workforce requirements of the Council and evidence how this supports other strategies.</p>	<p>A workshop session was held for the extended CMT which focused on two service areas; waste and adult social care. For each of these services this covered the work undertaken to develop plans, workforce profiles, service transformation and career development. The workforce plan for waste service was due to be presented to committee in cycle two of 2020. Plans for the remaining services are due to be presented to committees in September 2020.</p> <p>The Council has developed a Workforce for the Future Strategy and an Employability Model which aims to contribute to the delivery of the strategy. There is a focus on the workforce of the Council and of North Lanarkshire as a whole. The strategy is linked to the Plan for North Lanarkshire and has a plan for the year ahead and then 2020/23.</p> <p>Reasonable progress has been made.</p>
<p>Improvement plans arising from self-evaluation exercises should include measurable actions and clear deadlines.</p>	<p>A 12-week self-evaluation was planned for Spring 2020. However, due to the Covid-19 pandemic this had to be postponed given the nature of the exercises involved, the working restrictions and council resources were deployed elsewhere in response to the pandemic.</p> <p>Whilst the initial planned exercise has been delayed, the council has continued its commitment to self-evaluation. The council completed an exercise to evaluate its response to the Covid-19 pandemic. The results of this exercise were reported to the Policy and Resources Committee in October 2020. An action plan has been developed</p>

BVAR Recommendation	Summary of progress
	<p>which will be monitored by a separate corporate group and the results have fed into the Programme of Work for 2021/22.</p> <p>The Strategic Self-Evaluation Framework has been updated this year to be in line with national Best Value guidance published in March 2020. This, and the 2021/22 programme of review were presented to the CMT in June 2021.</p> <p>While the council have had to delay its planned self-evaluation exercise as a result of the global pandemic, it has shown a clear commitment to self-evaluation through its review of the Covid-19 response and annual review of the Strategic Self Evaluation Framework.</p> <p>Reasonable progress has been made due to Covid-19.</p>

Source: Audit Scotland

The council complies with the Accounts Commissions' SPI Direction

89. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

90. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities

91. We have evaluated the council's arrangements for fulfilling the above requirements and concluded that the council complies with the Direction.

Covid-19 affected performance reporting, but there is a new Business Intelligence Hub with the aim of increasing capacity to collect and report on performance information

92. The council paused its Strategic Performance Framework at the on-set of the pandemic and staff were redeployed to support critical services.

93. During 2020/21, a tailored suite of performance indicators were reported to Corporate Management Team on a monthly basis, including those most relevant in the context of Covid-19, for example taxation collection rates.

94. The Strategic Performance Framework was reinstated at the end of March 2021 in line with the council's Covid-19 Recovery Plan. The council is revising its performance reporting arrangements. A new reporting structure has been developed and is currently being piloted across three service committees. The council has also developed a new Business Intelligence Hub with the aim of increasing capacity to collect and report on performance information and to improve insight into the data collected. A reporting schedule for performance has been agreed for 2021/22 and there have been no delays against this schedule.

National performance audit reports

95. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 4](#).

96. Relevant national reports continue to be routinely presented to the Audit and Scrutiny Panel throughout the year. This includes an assessment from management of the Council's position against the recommendations contained in the reports.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Non-current asset valuations</p> <p>Our review identified that as a result of the council's policy to revalue assets every five years there is a risk that the valuation of major asset classes (e.g. education estate and council dwellings) may have changed materially since their last full valuation.</p> <p>Although in line with previous practice, some valuations had not been updated for three years on major asset classes (school buildings and housing) and no assessment was undertaken to determine if these asset values differed materially from current value.</p> <p>Risk – There is a risk that non current asset carrying values are significantly different to the current value.</p>	<p>The council should assess annually whether the carrying value of assets is materially different from current value.</p>	<p>The Council will review and determine a methodology to annually assess whether there is a material movement in value since classes of assets were revalued.</p> <p>Responsible officer: Elaine Kemp</p> <p>Agreed date: March 2022</p>
<p>2. Non-current asset accounting</p> <p>A review of the fixed asset register identified various errors in the useful lives of assets, depreciation, and net book value of assets.</p> <p>Risk – There is a risk that assets will be incorrectly accounted for in the financial statements.</p>	<p>The council should complete a detailed quality review of its fixed asset register at each year end to identify any errors which could feed into the financial statements.</p>	<p>The Council will ensure that a detailed review of the fixed asset register is carried out as part of the year end process.</p> <p>Responsible officer: Elaine Kemp</p> <p>Agreed date: June 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Internal Controls</p> <p>Due to the additional workload on the revenues team as a result of the Covid-19 pandemic and administering the business grants, second officer checks over council tax and non-domestic rates reliefs were paused in 2020/21.</p> <p>Risk - There is a risk that reliefs and discounts are awarded incorrectly.</p>	<p>The council should ensure these second officer checks over non-domestic rates and council tax reliefs are reinstated.</p>	<p>These checks were reinstated effective from April 2021 and have been carried out on a monthly basis. No further action required.</p> <p>Responsible officer: N/A</p> <p>Agreed date: Complete</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Non-current asset accounting</p>	<p>The assets under construction listings should be reviewed with a focus on any that contain details that indicate they should now be removed (e.g. previous years).</p> <p>The Council should continue to work with the software provider to address the depreciation calculation issues identified.</p>	<p>Complete</p> <p>The review of assets under construction is now complete. The issues with the depreciation calculation are now understood and any errors identified in 2020/21 were updated correctly.</p> <p>Work will continue under the proposed review of the fixed asset register outlined in recommendation 2 above.</p>
<p>b/f 2. Completion of transfer of cross-cutting services</p>	<p>The council should complete the transfer of the cross-cutting services for children, families and justice services from NLIJB.</p>	<p>Complete</p> <p>Specific audit testing of codes transferred from the IJB and wider audit testing of expenditure transactions did not identify issues.</p>
<p>b/f 3. Internal controls</p>	<p>A robust payroll validation process should be introduced across all services.</p>	<p>Complete</p> <p>Positive validation reports were implemented for</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Education and Families towards the end of 2020/21.</p> <p>Positive validation was implemented for all other services from July 2021 and yearly thereafter.</p>

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Identification and evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results: One error was identified in relation to journals testing and this was adjusted for. 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: One error was identified through journal testing where a transfer between the capital grants unapplied and the capital adjustment accounts had been missed. This was below our performance materiality threshold and was adjusted for. No issues were identified that indicate management override of controls.</p>
<p>2. Risk of error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and</p>	<p>Assessment of the scope, independence and competence of the professionals engaged in</p>	<p>Results: Estimations and judgements for the pension figures within the annual accounts were based on the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>valuation of non-current assets and pensions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic. The council has a rolling programme of valuations with specific categories revalued each year. For 2020/21 leisure properties are being revalued, with a desktop exercise being carried out for council housing.</p> <p>Given categories of assets have not been subject to valuation since the impact of Covid-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts.</p>	<p>providing estimates for non-current assets and pensions.</p> <p>Review appropriateness of actuarial assumptions and results including comparison with other councils.</p> <p>Walkthrough the process of valuation to understand the basis for significant judgements.</p> <p>Establish officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Establish officer's arrangements for getting assurances over the impact of Covid-19 on the accuracy of non-current assets not subject to valuation in year.</p> <p>Review actual experience of significant estimates made in the prior year.</p>	<p>most recent information.</p> <p>In line with previous practice, management did not initially provide an assessment of current value against the carrying value of non-current assets. However, this was provided during the audit process based on a review of BCIS movements in a sample of school assets and based on a review of house purchase prices during 2020/21. This led to an adjustment in the Balance Sheet for other land and buildings and council dwellings valuations.</p> <p>Conclusion: No issues were identified in terms of the measurement and valuation of pensions. An adjustment was made for the valuation of non-current assets.</p>
<p>3. Risks relating to Covid-19</p> <p>Covid-19 has had a significant impact on the council in the 2020/21 audit year:</p> <ul style="list-style-type: none"> Financial management - additional funding and expenditure. CoSLA analysis indicates that council income has increased by 9 per cent and over £1.3bn of additional support to business has been routed through councils as a result of Covid-19. Financial management - The Scottish Government has allowed 	<p>Establish the additional funding streams the council has received in year, what it has been spent on and the impact on outturn and reserves and how this is reported in financial statements.</p> <p>Review of Internal Audit work on financial management and sustainability.</p> <p>Review of any Scottish Government and CIPFA/LASAAC guidance on accounting.</p> <p>Discussions with management during the year to consider the</p>	<p>Results: The council made two adjustments in the accounts to comply with late LASAAC guidance on accounting for Covid-19 related income and PPE and testing kits.</p> <p>The council added in additional disclosures for Covid-19 related business grants in the accounts to comply</p>

Audit risk	Assurance procedure	Results and conclusions
<p>for flexibility to be applied to certain areas of council funding and accounting practices.</p> <ul style="list-style-type: none"> Financial reporting – The council is projecting a surplus on outturn of £4.7 million but reports a balanced position in relation to Covid-19 income and expenditure. Covid-19 may have affected bad debt experience and the position of organisations in the wider group. Financial reporting - The council require to make judgements on the correct accounting treatment in relation to additional funding arrangements – whether the council is acting as agent or principle. Fraud and controls - There is an increased risk of fraud for some Covid-19 related grants. Due to the nature of the schemes, there may not have been adequate consideration of internal control frameworks and the impact of remote working. Group - Covid-19 raised issues over going concern for some of the council's group bodies in 2019/20. Given the economic impact which has been felt during 2020/21, there is an increased risk to the going concern principle for some of the group components. Performance – Covid-19 grants have been disbursed at different rates across councils and there are different experiences of rejection rates. Without appropriate processes in place there is a risk that grants may be awarded to ineligible applicants or eligible applicants may not receive funding. 	<p>accounting treatment of significant business grants and use of financial flexibilities.</p> <p>Review of disclosures and balances in annual accounts and ensure that this is consistent with any guidance issued.</p> <p>Review of Internal Audit work on financial management and sustainability.</p> <p>For the most significant grants (by value), establish the conditions attached and the associated controls implemented over these.</p> <p>Confirm existence and operation of these controls by completing a walkthrough.</p> <p>Review potential NFI data matches.</p> <p>Establish the impact on collection rates and assess the impact on the bad debt provision.</p> <p>Review of Internal Audit work on Covid-19 grants.</p> <p>Consider the impact of Covid-19 in the wider group including furlough and any issues raised by component auditors.</p> <p>Early engagement with appropriate component auditors.</p> <p>Assess any national reporting of business grant performance and discuss any issues with officers.</p>	<p>with the relevant guidance.</p> <p>The council implemented satisfactory controls around the application and awarding of business grants.</p> <p>The council is making good progress in investigating NFI matches.</p> <p>Covid-19 had a substantial impact on some of the council's group bodies and the council has provided additional financial support.</p> <p>We reviewed Internal Audit's work and used this to inform our audit testing.</p> <p>Conclusion: The council made adjustments to the financial statements and disclosures in the accounts to comply with appropriate guidance.</p>
<p>4. Risk of inaccurate accounting for children, families and justice social work services</p>	<p>Review of specific codes transferred from the IJB to the council and substantive testing of</p>	<p>Results: Audit testing did not identify any issues. We provided the appropriate assurances to the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The IJB's budget disaggregation exercise to reflect the transfer of discretionary services back to the council is now complete. A further £15.6 million has been transferred out of the IJB budget and into the council in 2020/21 (£36.3 million in total). The service level agreement between the council and the IJB has been set out in principle but the detail is still being developed.</p> <p>There is a risk that budgets have not been correctly identified and transferred resulting in inaccuracies in financial reporting.</p>	<p>these to confirm classification of expenditure.</p> <p>Substantive testing of wider social work and non social work expenditure items.</p> <p>Provide assurances to the North Lanarkshire IJB auditor.</p> <p>Review of Internal Audit work on financial management and sustainability.</p>	<p>North Lanarkshire IJB auditor.</p> <p>Conclusion: Budgets have been correctly identified and transferred back to the council.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial Sustainability</p> <p>The council has revised its medium-term financial plan to incorporate the impact of Covid-19 known at that time. This forecasts a budget gap of £46.7 million for the three-year period to 2023/24. The medium-term financial plan highlights that significant savings will need to be achieved to address funding gaps.</p> <p>It is likely that there will be further cost pressures to the council on top of the immediate response to the Covid-19 crisis. There is a risk to the long-term financial sustainability of the council given the additional cost pressures.</p>	<p>Review the development of a 3-year rolling budget process.</p> <p>Consider the 2021/22 revenue budget and required savings target.</p> <p>Review the financial monitoring during the year, including the use of reserves and delivery of planned savings.</p>	<p>Results: The council continues to develop a three-year budget. The Council's usable reserves have increased due to additional Covid funding at the years end and other general fund strategies such as a review of the loan debt repayment arrangements.</p> <p>Conclusion: The Council has good medium-term financial plans in place that reflects the impact of Covid-19 and is taking a more strategic approach to identifying future savings plans.</p>

Appendix 4

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

North Lanarkshire Council

2020/21 Annual Audit Report

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