South Lanarkshire Council

2018/19 Annual Audit Report

AUDIT SCOTLAND

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

18 September 2019

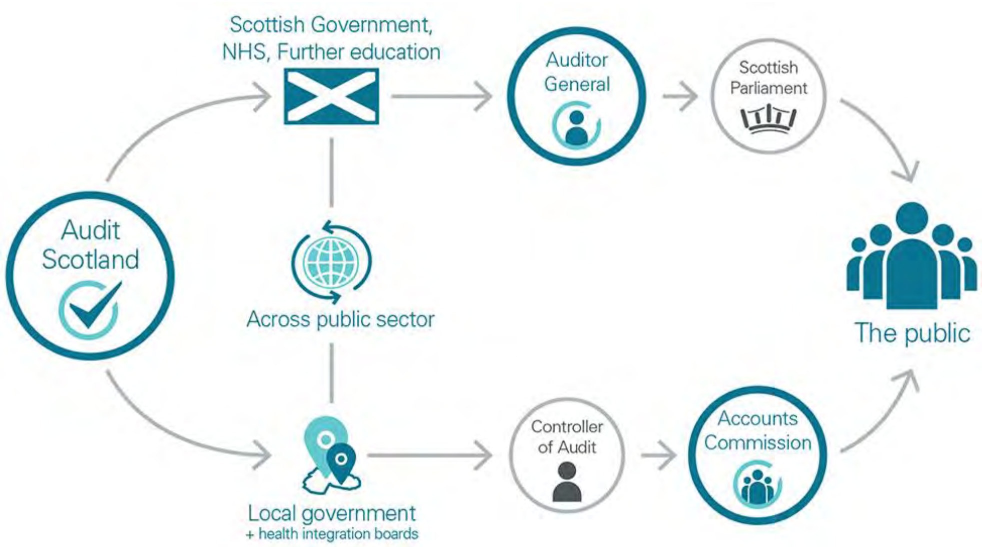
Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual accounts

1 The financial statements of South Lanarkshire Council and its group give a true and fair view of its financial position for the year ended 31 March 2019.

2 We have issued an unqualified independent auditor's report on the Council's annual accounts and those of the three charities administered by the Council

Financial management

3 The Council has a well-established budget-setting process that supports elected members in scrutinising savings plans.

4 Financial management is effective and the Council has delivered services within budget.

5 Systems of internal control operated effectively in 2018/19 with scope for improvements in some areas.

Financial sustainability

6 The Council has a good process in place for long-term financial planning. Future financial plans are challenging but the Council is well placed to address projected funding gaps.

7 The Council has accumulated a substantial level of useable reserves. This prepares it to face the financial challenges of the future.

8 The UK's withdrawal from the European Union presents a number of risks to the Council but it has taken mitigating action in response to identified risks.

Governance and transparency

9 The Council has effective governance arrangements in place.

10 The Council conducts its business in an open and transparent manner, but members need to ensure that all key decisions are seen to be subject to an appropriate level of challenge and scrutiny at public meetings.

Best Value

11 The Best Value Assurance Report (March 2019) says that the Council demonstrates strong leadership, clear direction, a strong culture of continuous improvement and is a well performing council. The Council is making significant progress in fulfilling its duty of Best Value, and outcomes are improving for citizens. In June the Council approved an action plan to in response to the recommendations included in the BVAR, to support the Council's continuous improvement.

12 **The Council demonstrates improved performance over time in many services but there are other areas where improvement is required. The Council has a comprehensive and structured approach to continuous improvement.**

13 **Public performance reporting on Council services has improved. The Council has ‘spotlights’ performance pages on its website, using infographics to show the Council’s performance, against each of its strategic objectives.**

Introduction

1. The. scope of the audit was set out in our *2018/19 Annual Audit Plan*, submitted to the April 2019 meeting of the Risk and Audit Scrutiny Committee. This report summarises findings from:

- our audit of the annual accounts
- our consideration of the four audit dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* and illustrated at exhibit 1.

2. As well as our statutory duties, we also aim to add value to the Council by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Exhibit 1
Audit dimensions

Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 were:

- a review of the Council's main financial systems and governance arrangements
- the audit of the Council's 2018/19 annual accounts
- an update to the findings and actions arising from the Best Value Assurance Report published in March 2019.

4. Our audit of the annual accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the auditor's responsibility to express an opinion on the annual accounts prepared by management. This does not relieve management of the responsibility for the preparation of the annual accounts.

5. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

6. An action plan is included at appendix 1 setting out our recommendations to address issues identified from our audit work. Officers have considered the issues and agreed to take the specific steps in the column headed "Agreed management action/timing". Members of the Risk and Audit Scrutiny Committee should ensure that they are satisfied with proposed actions and have a mechanism in place to assess progress and monitor outcomes.

7. We comply with the Financial Reporting Council's Ethical Standard. We have not provided non-audit related services. No work was undertaken beyond that set out in our annual audit plan, therefore our audit fee of £490,110 remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. This report is addressed to the members of the Council and the Controller of Audit and will be published on Audit Scotland's website *www.audit-scotland.gov.uk* in due course.

9. The courteous co-operation and assistance extended to us over the past year by members and staff of the South Lanarkshire Council is gratefully acknowledged.

Part 1

Audit of 2018/19 annual accounts

Main judgements

The financial statements of South Lanarkshire Council and its group give a true and fair view of its financial position for the year ended 31 March 2019.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

Unqualified audit opinions issued on the three charities administered by the Council.

Audit opinions on the annual accounts

10. The Council's annual accounts for the year ended 31 March 2019 were approved by the Risk and Audit Scrutiny Committee on 18 September 2019.

11. We reported, in our independent auditor's report:

- an unqualified opinion on the financial statements
- that the audited part of the remuneration report, management commentary and the annual governance statement were consistent with the financial statements and properly prepared.

12. We comment on the audit of charities administered by the Council at the end of this part of the report.

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

Submission of the annual accounts for audit

13. We received the unaudited annual accounts on 27 June 2019 in line with the agreed timetable. The annual accounts submitted for audit were of a good standard as were supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

14. The working papers included a print of sundry debtor balances in support of the debtor figure in the balance sheet. Review of this print found that £0.376 million of balances had been duplicated. Management consulted the system supplier (Civica) who advised that the print job originally used was not the correct version. Management subsequently provided the print used for age analysis of debtors. The aged debtor print total was slightly different in total from the original print. However, the difference of some £9,000 is not material to the financial statements.

Recommendation 1

Management should ensure that staff are aware of the proper year end closure routines and that all system data is retained as at 31 March.

Management commentary, annual governance statement and remuneration report

Management commentary

15. The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires Councils to prepare and publish, along with the financial statements, an annual governance statement, a management commentary and a remuneration report, which are consistent with the disclosures made in the financial statements. In our annual audit report for 2017/18 we commented on the improved standard of narrative reports in the unaudited annual accounts. This improvement has been sustained into 2018/19.

16. The management commentary that accompanies the financial statements is intended to expand upon and provide clarity and context to the information in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

17. In our Annual Audit Report 2017/18 we noted: improved compliance with guidance; better clarity of narrative; a reduction in superfluous detail; and, greater use of graphics. Overall, we concluded that the management commentary complies with guidance but could be further improved to provide a more user-friendly view of the Council's performance. The Council should consider a review of the presentation for future years.

Recommendation 2

The Council should consider a review of the presentation of information in the management commentary for future years.

Annual governance statement

18. The Council has a Local Code of Corporate Governance and this is reviewed and updated annually. The local code follows the principles set out in the CIPFA /SOLACE Delivering good governance in local government: framework 2016. The Council's annual governance statement provides a comprehensive account of its governance arrangements, referring to each of the CIPFA/ SOLACE principles and how it complies with them.

Good Practice

In its annual governance statement, the Council discloses the extent to which the organisation complies with proper practices set out in the Delivering good governance in local government: framework 2016 published by CIPFA and SOLACE.

Remuneration report

19. The audited part of the remuneration report was consistent with the financial statements and properly prepared.

20. The Trade Union (Facility Time Publication Requirements) Regulations 2017 requires relevant public sector employers to publish a range of information in relation to trade union facility time and to disclose this in the remuneration report. The information was omitted from the unaudited accounts. Management obtained the requisite information and disclosed it in the audited accounts.

Risk of material misstatement

21. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified some key audit risks which involved the highest level of judgement and potential impact on the financial statements. These risks informed the audit strategy, resources and work performed. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance.

22. Appendix 2 explains how we addressed the key audit risks identified at the planning stage, in arriving at our opinion on the financial statements.

Materiality

23. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

24. Our initial assessment of materiality for the financial statements is undertaken during the planning phase of the audit. On receipt of the annual accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate.

25. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements. Our final materiality levels are summarised at exhibit 2.

Exhibit 2
Materiality levels

Materiality level	Amount
Overall materiality - This is the calculated figure used in assessing the potential effect of errors in the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2019.	£10.622 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 45% of overall materiality.	£4.780 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£100,000

Source: Audit Scotland, Annual Audit Plan 2018/19

Significant findings from the audit

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”,

27. Significant findings are summarised at exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the action plan at appendix 1 has been included.

28. The qualitative aspects of the Council's accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the Council.

Exhibit 3
Significant findings

Issue	Resolution
1. Pension liability The impact of two distinct pensions issues, affecting the accounts of UK local government bodies, became apparent during 2019. The pension liability in the balance sheet of the unaudited financial statements had to be recalculated to take account of additional liabilities arising from legal judgements. We have summarised the issues in more detail at paragraphs 29 to 35 below.	Strathclyde Pension Fund actuaries provided an estimate of the increase in liability. The Council's net pension liability increased by £33.360 million from £513.360 million (unaudited annual accounts) to £546.720 million.
2. Loans fund: extended repayment periods Following clarification of the position from Audit Scotland the Director of Finance and Corporate Resources opted to extend the repayment period of a number of loans. This reduced annual repayment made by services and reduced their expenditure for 2018/19. We have summarised the issues in paragraphs 36 to 42 below.	The effect of this for 2018/19 was to reduce total service expenditure by £2.841 million.
3. South Lanarkshire Integration Joint Board (SLIJB) transactions in the comprehensive income and expenditure statement (CIES) The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) specifies the treatment of expenditure and income in respect of transactions with integration joint boards. Both expenditure and income (in the form of value received from the integration joint board) should be included in Councils' CIESs. The unaudited financial statements of the Council had omitted the SLIJB transactions.	Management adjusted the CIES to include the SLIJB income and expenditure. Income and expenditure were both increased by £126.543 million resulting in no net effect on the CIES.
4. Holiday pay accrual An error of £0.658 million was found in the calculation of the holiday pay accrual.	Management have made the appropriate adjustments to the financial statements.
5. Non-operational assets: impairment of council houses earmarked for demolition Around 240 council houses were approved for demolition. These were included in the asset register at valuation rather than nil value.	Management reduced the asset valuation in the balance sheet to reflect the decision to demolish the houses. Total non-current assets were reduced by £9.465 million.

Issue	Resolution
6. Error in elimination of internal transactions	
Following the submission of the annual accounts for audit, finance staff drew our attention to an input error on the elimination of internal transactions. The correction had the effect of reducing both income and expenditure by £0.800 million with a net nil effect on the CIES.	Management have made the appropriate adjustments to the financial statements.
7. Heritage assets	
In our Annual Audit Report 2016/17 we recommended that the Council review its inventory of heritage assets to ensure that it has a complete record of any assets with significant financial or cultural value. The Balance Sheet value of heritage assets has remained the same over the last three years.	Management has advised that the programme to review the heritage asset inventory is ongoing, that the time line for completion is 5 to10 years and that approximately 60,000 items are already recorded on the Council's collection management system.

Source: Audit Scotland

Pension liability

Age discrimination on pension scheme transitional protection

29. In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of that report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes were: pensions are now based on career average rather than final salary; retirement ages are now aligned with state pension eligibility age; rates of the annual accrual of pension benefits are changed.

30. The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this year, the judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle applies to other public sector groups who have seen similar changes to their pension schemes.

31. As a consequence of the McCloud decision, the Council was obliged to increase its pension liability in the financial statements for 2018/19.

Sex discrimination on guaranteed minimum pension (GMP) rights

32. Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.

33. In October 2018 the High Court (England) held that pension schemes must eliminate the discriminatory effects of GMPs. The Court's judgement is applicable across all UK public sector defined benefit pension schemes. The issue is a long standing one and the many complexities of dealing with it have meant that there is no agreed solution to calculating the liabilities of pension schemes. However, an interim method of calculating costs in respect of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

34. Strathclyde Pension Fund actuaries provided an estimate of the increased liability attributable to the Council, based on the interim methodology, and this has been included in the 2018/19 financial statements.

Impact of revised pension liability on the Council's balance sheet

35. The increase in liability in respect of the McCloud case was £27.776 million and for GMPs was £5.142 million. The Council's net pension liability therefore increased from £513.360 million (unaudited annual accounts) to £546.720 million.

Loans fund: extended repayment periods

36. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 make provision, inter alia, with respect to the powers of local authorities to borrow money and to maintain loans funds. The loans fund operates like an internal bank: it raises money externally and makes advances to Council services, typically for large capital projects. The service repays the amount advanced over a specified number of years. Prior to the introduction of the 2016 regulations this repayment period was fixed at the outset and was not changeable.

37. The 2016 regulations allowed flexibility to alter repayment periods subsequent to the initial agreement. The interpretation of the regulations specific to repayment periods and their extension became a matter of contention. Following discussions with CIPFA, CoSLA, the Scottish Government and independent legal experts, Audit Scotland agreed in June 2019 that the 2016 regulations could be applied to pre-April 2016 advances.

38. South Lanarkshire Council had not planned to extend the loans fund advances periods for advances made prior to April 2016. However, following clarification of the position from Audit Scotland the Director of Finance and Corporate Resources opted to reprofile a number of loans, reduce the amount charged in the accounts of 2018/19 and retrospectively seek ratification from the Council. The effect of this for 2018/19 was to reduce total expenditure by £2.841 million.

39. The extension of loan periods was based on advice from surveyors of the Council's Property Services who provided advice on the remaining economic lives of the assets affected. We reviewed the Council's approach and methodology and found it to be reasonable.

40. The advantage to a Council of extending repayment periods is that reduced annual repayments are made by services, relieving pressure on revenue budgets. There is no impact on the overall level of debt that will be repaid but the term over which it is repaid is extended. The reduction in principal debt repayments in 2018/2019 will be paid over the remaining life of the debts and amounts to approximately £0.050 million per annum.

41. The £2.841 million reprofiling was accounted for in the 2018/19 unaudited annual accounts which were considered by the Risk and Audit Scrutiny Committee on 19 June 2019. The unaudited accounts were signed and dated 19 June by the Director of Finance and Corporate Resources. The full Council (26 June 2019) approved the change in Treasury Management Strategy which was the necessary authority to allow the extension of repayment periods.

42. A business case was prepared to support the reprofiling proposal, but this was not provided to members. A summary of the business case was included in the final outturn report submitted to members.

Recommendation 3

Management should ensure that the business case for future reprofiling exercises is provided to members.

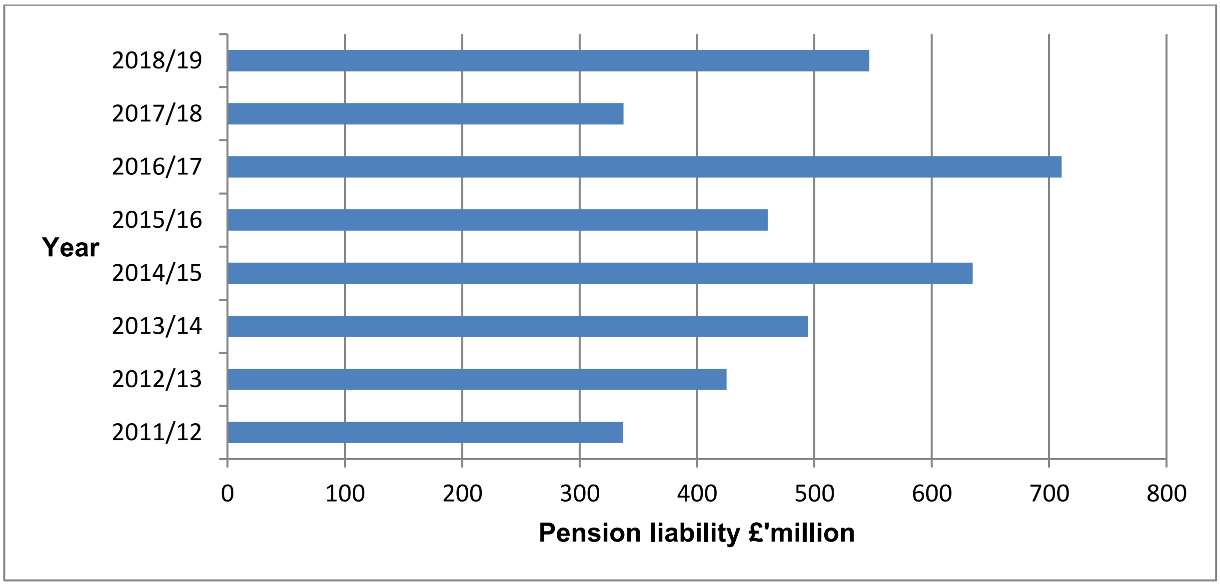
Movement in pension liability over time

43. As required by international accounting standards the Council has recognised its pension liability on the balance sheet.

44. South Lanarkshire Council is a member of Strathclyde Pension Fund, one of the largest pension funds in the UK. The valuation of pension fund assets and liabilities is assessed by professional actuaries (Hymans Robertson) each year and is dependent on a range of external variables, including projected rates of return on assets, interest rates and mortality estimates.

45. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this cost. Exhibit 4 sets out the movement in the Council's pension liability over the last eight years. Historically there has been considerable volatility year on year of the valuation of liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities. Some of this year's movement derives from the issues set out in paragraphs 29 – 35 above, however, most of the movement relates to annual variance.

Exhibit 4
Pension fund liability 2011/12 – 2018/19



Source: South Lanarkshire Council audited Annual Accounts 2011/12 – 2018/19

Evaluation of misstatements

46. It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

47. We identified 3 misstatements in the unaudited financial statements with a gross value of £10.923 million, all of which have been adjusted in the audited accounts. The misstatements had no effect on the council's useable reserves.

48. In addition, the omission of the income and expenditure in respect of the Integration Joint Board was corrected which increased both by £126.543 million resulting in no net effect on the comprehensive income and expenditure statement. The late arising increase to the pension liability of £33.360 million had no net effect on the balance sheet.

Follow up of prior year recommendations

49. The Council has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out at appendix 1.

Audit of charities administered by South Lanarkshire Council

50. Members are trustees for 69 trusts administered by the Council. Each trust has been included in one of three registered Scottish charities, exhibit 5.

51. As a consequence of the interaction of the Local Government in Scotland Act 1973 with charities legislation, a full and separate audit and independent auditor's report is required for each registered charity irrespective of the value of its assets.

52. Our duties as auditors of the charities administered by South Lanarkshire Council are to:

- express an opinion on whether the charity's financial statements properly present the charity's financial position and are prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

53. We have given an unqualified opinion on the financial statements the three charities administered by the Council and have nothing to report in respect of the other matters.

Exhibit 5
Charities administered by South Lanarkshire Council

Charity	Scottish Charity Number	Net Assets as at 31 March 2019
South Lanarkshire Council Charitable Trust	SC025089	£1,024,224
East Kilbride Information Technology Centre Trust	SC015221	£26,881
South Lanarkshire Council Education Trust	SC028135	£135,475
Total Net Assets		**£1,186,580**

Source: Charities audited accounts 2018/19

54. A proposal to modernise the operation of the charities was approved by the Finance and Corporate Resources Committee in April 2018. The new arrangements cannot be formally implemented until approval from OSCR is received. Management have advised that discussions with OSCR are continuing but approval has yet to be granted. As part of our 2019/20 audit activity we will consider the position and report accordingly.

55. In our 2016/17 Annual Audit Report we made a number of recommendations concerning the administration of the charities. Implementation of the new proposals will, it is anticipated, address the issues raised. Management should also consider the presentation of the charities' annual accounts and ensure that they follow good practice and are fit for purpose.

Other findings

56. In addition to the issues set out above, and in accordance with normal audit practice, some presentational and disclosure amendments were discussed and agreed with management.

Whole of Government Accounts

57. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Council submitted its consolidation pack for audit on 30 July. We will audit the return and submit it by the due date of 28 September 2019.

Part 2
Financial management

Main judgements

The Council has a well-established budget-setting process that supports elected members in scrutinising savings plans.

Financial management is effective, and the Council has delivered services within budget.

Systems of internal control operated effectively in 2018/19 with scope for improvements in some areas.

Financial performance in 2018/19

58. In February 2018 the Council approved a revenue budget of £694.361 million for 2018/19 which was an increase of £18.074 million on the base budget set for 2017/18. After adjusting for specific grants, the budget approved for 2018/19 was £679.605 million. A package of budget amendments, totalling £42.129 million, was incorporated into the budget. During the financial year, the Council made in-year budget revisions which had a net impact of increasing the overall budget by £14.318 million to £693.923 million.

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

59. The Council reported an underspend of £22.427 million against its revised revenue budget for 2018/19. The underspend developed through the year and was reported in revenue budget monitoring reports presented to each meeting of the Executive Committee.

60. The Executive Committee of 26 June received a report entitled “Revenue Budget Monitoring Final Outturn and Annual Report and Accounts - 2018/19”. “Table 6 - General Services 2018/19 Year-End” is a succinct summary of the financial outturn for the year and should have a more prominent position in the Executive Summary. The report format and content should be reviewed to ensure that it presents key information in a way understandable to members and other stakeholders.

61. At 31 March 2019 the Council had accumulated usable reserves of £117.908 million, £82.785 million of which was the general fund element. Exhibit 6 shows the growth of the Council’s useable reserves over the last five years.

62. The Council has a history of delivering services within budget. In 2018/19 all resource directorates delivered within 1.5% of budget. Set in the context of the total expenditure in each resource area for the year, this is evidence of effective financial management over resource directorate expenditure.

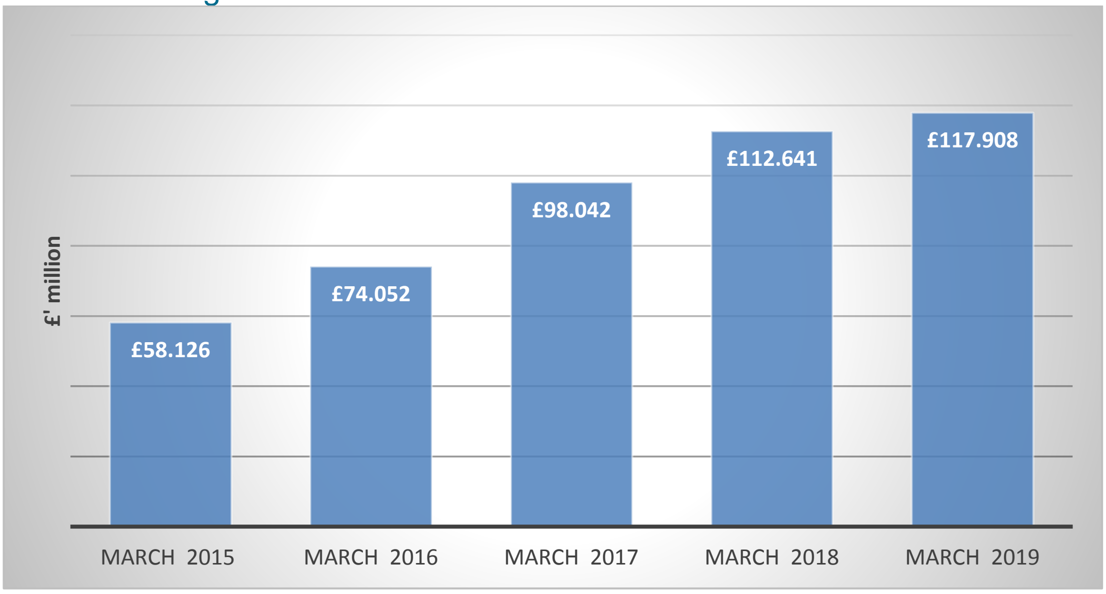
Loans charges and council tax income

63. Loans charges and council tax income are set and controlled at corporate level. In both 2016/17 and 2017/18, we reported on a trend of underspends in loan charges and greater than budgeted council tax income. These elements had contributed substantially to the unplanned accumulation of reserves.

64. In 2018/19 the Council recorded smaller budget variance on council tax income although the variance on loans fund charges remains higher than expected. Exhibit 7 provides an analysis of variances against these budgets over the past five years and shows that unplanned reserves of some £77.078 million accumulated during that time. The Council should continue to review the basis of the loan charges budget.

Exhibit 6

Reserve fund growth 2014-2019



Source: South Lanarkshire Council audited accounts 2014 – 2019

Exhibit 7

Loan charges and council tax income surpluses 2015/16 - 2018/19

Variance	2015/16 £' m	2016/17 £' m	2017/18 £' m	2018/19 £' m	Total £' m
Loan charge underspend	£3.079	£28.909*	£5.546	£8.703	£54.371
Council tax income excess of budget	£5.872	£6.066	£7.631	£3.138	£22.707
Total unanticipated surplus	**£8.951**	**£34.975**	**£13.177**	**£11.841**	**£77.078**

***** The loan charges underspend for 2016/17 includes £18.3 million attributable to a decision taken during the year to defer the repayment of loans of that amount to future years. If this is excluded from the financing charges shown above, the remaining underspend for that year on estimated loan charges was £10.609 million.

Source: Revenue Budget Monitoring Final Outturn reports (2015/16 – 2018/19)

65. Notwithstanding the comments on central elements of the budget, the Council's budget setting process was considered as part Best Value audit of 2018/19. The

Best Value Assurance Report (March 2019) concluded that the Council has a well-established budget-setting process that supports elected members in scrutinising savings plans.

Housing revenue account (HRA)

66. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The Council does not have the power to budget to accumulate HRA reserves.

67. In February 2018, the Council approved a 3.95% increase in the average weekly rent levels for tenants for 2018/19. The rent level set reflected the income required to fund the revenue budget of £79.463 million, and a contribution towards the capital programme of £23.730 million.

68. The HRA reported a deficit for the year of £2.613 million. When added to the amount brought forward from the prior year this gives an accumulated surplus of £9.011 million.

69. After write-off of bad debts, the Council's HRA bad debt provision increased by £1.125 million to £8.169 million. The Council have budgeted to increase the 2019/20 bad debt provision by an additional £1.669 million when compared to the existing 2018/2019 budget. Management have advised that most of the increase is attributable to the continuing roll out of welfare reform and universal credit.

Capital programme

70. The Council's capital planning and capital programme were reviewed as part of the Best Value audit of 2018/19. The Best Value Assurance Report (March 2019) concluded that the Council's planning process allows it to prioritise the delivery of capital projects that have a direct impact on the lives of its citizens. The capital programme plays a significant role in the economic wellbeing of the area and the achievement of the Council's Connect 2017–22 objectives.

General services capital programme

71. The Council approved a general services capital programme, in February 2018, of £73.194 million. The programme was subsequently revised downwards to £66.819 million. Actual spend on the general services capital programme in 2018/19 was £57.780 million. This represents and underspend of £9.039 million against the revised programme.

Housing capital programme

72. The Council approved its housing capital programme of £44.935 million for 2018/19 in February 2018. The programme was subsequently revised upwards to £53.664 million. Actual spend on the housing capital programme was £53.962 million.

Borrowing in 2018/19

73. The Council's outstanding loans at 31st March 2019 were £1.076 billion, an increase of £162.879 million on the previous year. This position reflects the borrowing required to fund the Council's current capital programme, and other ongoing commitments. The borrowing is in line with the approved treasury management strategy and members are kept informed of the Council's treasury management activity throughout the year, with quarterly reports presented to the Finance Committee.

Systems of internal control

74. As part of our interim audit work, we reviewed the high-level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the Council's financial statements. Our findings, which were reported to the Risk and Audit Scrutiny Committee in June 2019, included recommendations to enhance the existing control system.

75. As a consequence of the control weaknesses reported, we carried out additional audit work in some areas to allow us to obtain the necessary assurances for the audit of the 2018/19 financial statements. Specifically, we extended our substantive testing of journals and verified a sample of employee data. This testing did not identify any errors or other issues that would impact on the reliability of the information within the financial statements.

Payroll Overpayments

76. Our interim management report noted that as at 31 December 2018, there were some 200 outstanding salary/wage overpayments valued at £0.236 million. Of these, 15 (£0.021 million) did not have repayment plans in place.

77. We have since obtained the overpayment reports to 31 March 2019 which show 207 outstanding overpayments with a total value of £0.248 million. Of these, 12 (accounting for £0.031 million) do not currently have payment plans in place.

78. Resources are set a target of 14 days to notify payroll of a termination of a permanent employee and 5 days for temporary employees. In quarter 4, 151 of these notifications were outside of the timescale (49.7%). Late notification of termination is the most common reason for overpayments.

79. Whilst we acknowledge that the amounts involved are not large in the context of the Council's paybill overpayments that are not recovered will result in financial loss to the Council and potentially attract bad publicity through the media.

Recommendation 4

The Council should continue to review the processes in place to prevent, detect and recover payroll overpayments.

Dependency on key suppliers

80. . All organisations are susceptible to the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions. It is important that the Council is aware of the risks it faces and takes appropriate mitigating action.

81. Management has advised that the Council carries out due diligence checks on financial information for new contractors and obtains external advice on higher value contracts. The Council also has in place arrangements to ensure that all contracts are subject to some level of regular performance appraisal:

- As a minimum this is performed on an annual basis, with certain contracts having both monthly and annual performance reviews.

- The performance appraisals deal with general compliance areas across the contract including service delivery, finances and health and safety.

82. Based on our discussions with management and our understanding of the key suppliers of the Council, we are satisfied that appropriate risk management and business continuity arrangements are in place.

Part 3
Financial sustainability

Main judgements

The Council has a good process in place for long-term financial planning. Future financial plans are challenging but the Council is well placed to address projected funding gaps.

The Council has accumulated a substantial level of useable reserves. This prepares it to face the financial challenges of the future.

The UK's withdrawal from the European Union presents a number of risks to the Council but it has taken mitigating action in response to identified risks.

Financial planning

83. The Accounts Commission's March 2019 Local government in Scotland: Challenges and performance 2019 review emphasised the importance of medium to long-term financial planning given the continuing pressures that Councils face The Accounts Commission recommended that Councils should undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands.

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.

84. The Council's medium and longer-term financial planning was considered as part of our Best Value audit work in 2018/19. The Best Value Assurance Report (March 2019) concluded that the Council has a good process in place to address the challenges it faces. Financial strategy includes scenario planning and a risk assessment of the likely impact of any changes in assumptions in the medium to long term.

Funding position and savings plans

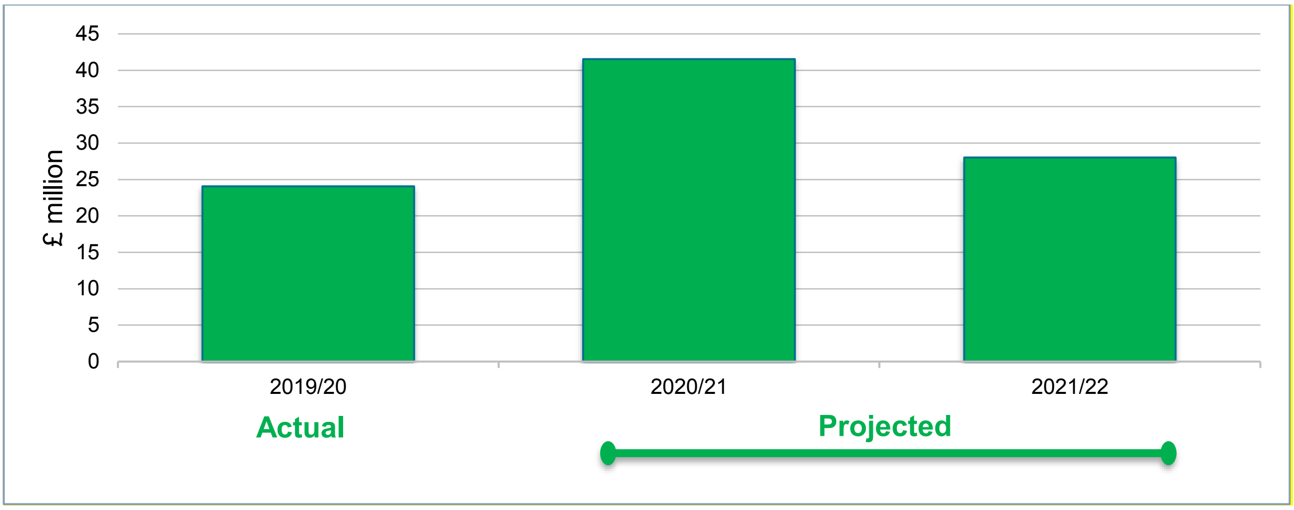
85. In common with other public sector bodies, the Council faces complex challenges in maintaining a sustainable financial position into the future. Pressures arise from increasing costs, changing demographics and increased demands by the public and legislature.

86. In February 2019 the Council approved its 2019/20 budget. The total budget for 2019/20 is £697.285 million, after adjusting for specific grants. The budget identified a funding gap of £24.050 million. Central funding solutions provided £9.494 million with council tax increases contributing £3.792m. This left resource directorates to find savings of £10.764 million.

87. Revenue budget monitoring reports for 2019/20 (up to period 4) indicate that the Council is projecting a year end underspend of £8.540 million, mainly due to loan charge savings arising from the Council's decision to reprofile some of its loans.

88. The budget approved for 2019/20 is part of the Council's medium-term Financial Strategy 2019/2020 - 2021/2022. Funding gaps, before corporate and resource directorate savings, in each of the next three years are illustrated at exhibit 8. The Council plans to bridge these gaps at corporate level reviewing council tax rates, the use of reserves and other corporate initiatives (for example, debt reprofiling); and at resource directorate level by service efficiencies and savings.

Exhibit 8
Funding gaps 2019/20 – 2021/22 before corporate initiatives and savings



Source: South Lanarkshire Council Overall Position of Budget 2019/2020 - Savings Proposals and Council Tax, 2020/2021 Strategy and Savings Requirement and Financial Strategy 2019/2020 to 2021/2022.

Reserves

89. The CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 provides guidance on the establishment and maintenance of reserves. It does not prescribe level of reserves, but instead places the responsibility on the chief finance officer to advise the Council on the creation and level of reserves appropriate to its circumstances.

90. The bulletin states that reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows
- a contingency to cushion the impact of unexpected events
- a means of building up funds, often referred to as “earmarked” reserves to meet known or predicted requirements

91. The level of usable reserves held by the Council increased from £112.641 million in 2017/18 to £117.908 million in 2018/19 as illustrated in exhibit 9.

92. The Council’s reserves strategy does not prescribe a minimum level of reserves that should be maintained. However, the *Financial Strategy 2019/2020 to 2021/2022 and Longer Term Outlook to 2028/2029,* which was approved by the Executive Committee in August 2018, states that the Council should, when possible, consider allocating any surplus funds to augment the Uncommitted General Fund levels. This is with a view to increasing the reserve to approximately £13.5 million over time. At 31 March 2019, the “uncommitted” general fund balance was £37.307 million.

Exhibit 9
South Lanarkshire Council usable reserves

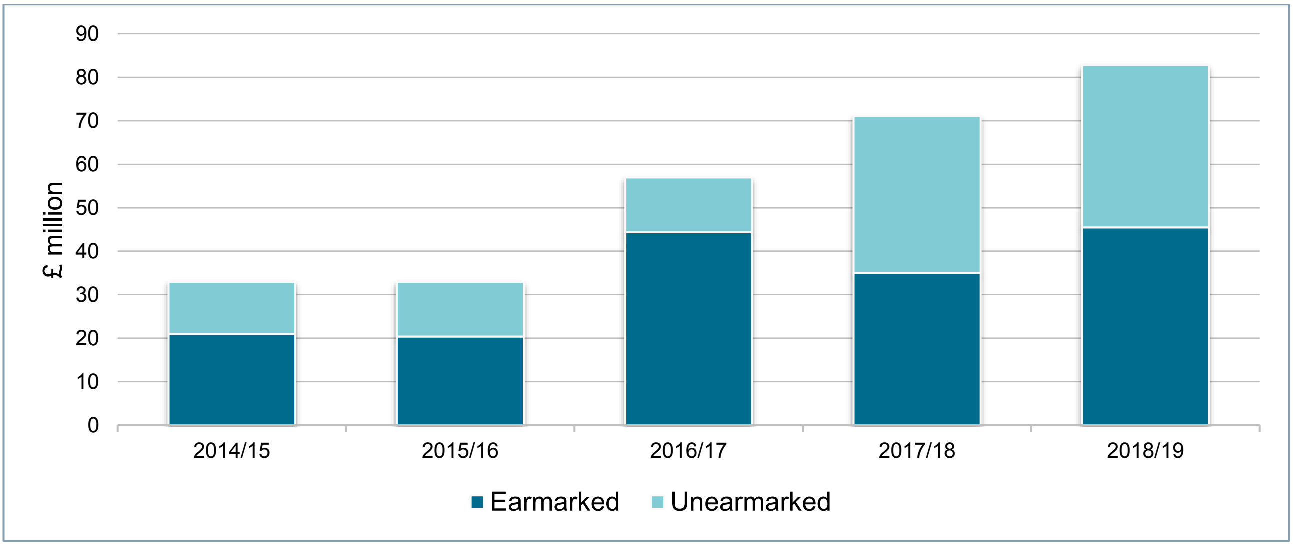
Reserve	31 March 2018 £' million	31 March 2019 £' million
General fund	£71.040	£82.785
Housing revenue account reserve	£11.624	£9.011
Repair and renewal fund	£7.232	£6.929
Capital fund	£18.229	£15.905
Insurance fund	£4.516	£3.278
Total usable reserves	**£112.641**	**£117.908**

Source: South Lanarkshire Council Annual Accounts 2018/19

Earmarked reserves

93. Most of the general fund reserve is 'earmarked'. This element of usable reserves increased in 2018/19 to £45.478 million (an increase of £10.447 million from £35.031 million at 31 March 2018). Exhibit 10 provides an analysis of the general fund over the last five years split between earmarked and unearmarked reserves.

Exhibit 10
Analysis of general fund over last five years



Source: South Lanarkshire Council Annual Accounts 2014/18 - 2018/19

94. Last year, we were advised that officers expected £14.936 million of the £35.031 million earmarked at 31 March 2018 to be used during 2018/19. However, only £8.909 million was used during the year, with a further £19.356 million transferred into the earmarked portion of the general fund in 2018/19. Earmarked balances were reviewed and the outcome reported in the "Revenue Budget Monitoring Final Outturn and Annual Report and Accounts - 2018/19" submitted to the Executive Committee of 26 June.

Changing landscape for public financial management and medium to long term financial planning

95. Scottish public finances are fundamentally changing The Scottish Government now has significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

96. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for public bodies' financial planning.

97. The Council has used the MTFS to help inform its assumptions on future levels of Scottish Government funding and thus shape its medium-term financial plans.

EU Withdrawal

98. EU withdrawal will inevitably have implications for the public sector in Scotland. In October 2018, Audit Scotland published the briefing paper: Withdrawal from the European Union. The paper emphasised the importance of public sector bodies working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

99. The Council employs relatively few (71) non-UK EU nationals. The Council is assisting them in applying for settled status under the EU settlement scheme. There is a regularly stream of communication to employees on the implications of EU withdrawal with signposting to the relevant government websites.

100. Relative to the size of the Council, direct EU funding is low (£12.781 million 2016-2020). The Council has engaged in discussions with the HM Treasury to obtain assurances over the current EU funding programme and is monitoring developments on UK government's proposed Shared Prosperity Fund, which will replace EU structural funding after EU withdrawal.

101. Maintaining service delivery following EU withdrawal is a key priority for the Council. Management has advised that an "extensive" exercise was undertaken with key suppliers to understand their level of preparedness ahead of EU withdrawal and the likely impact on the provision of goods and services to the Council.

102. In our view, the Council has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor the Council's preparations for, and response to, EU withdrawal.

Part 4

Governance and transparency

Main Judgements

The Council has effective governance arrangements in place.

The Council conducts its business in an open and transparent manner but members need to ensure that all key decisions are seen to be subject to an appropriate level of challenge and scrutiny at public meetings.

Governance arrangements

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.

103. Members and management of the Council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

104. The decision-making structure of the Council was approved at the first meeting of the new Council in May 2017. All committees and forums report to the Council through an Executive Committee, exhibit 11.

105. Governance arrangements were assessed as part Best Value audit of 2018/19. The Best Value Assurance Report (March 2019) concluded that there is a good degree of cooperation and consensus between members on the vision and objectives of the Council and consensus on how to apply resources to achieve corporate objectives. Members from all parties work well together and they were comfortable with the decision-making structure of the Council.

Openness and transparency

106. Transparency means that the public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

107. A comprehensive range of information on how the Council operates is available on its website. Information available includes: performance information, corporate plans and policies, how to make complaints, access to benefits and money advice, and good customer service contact information. Some areas are in the process of being updated. The Council also has a Facebook page to provide news and information to local residents.

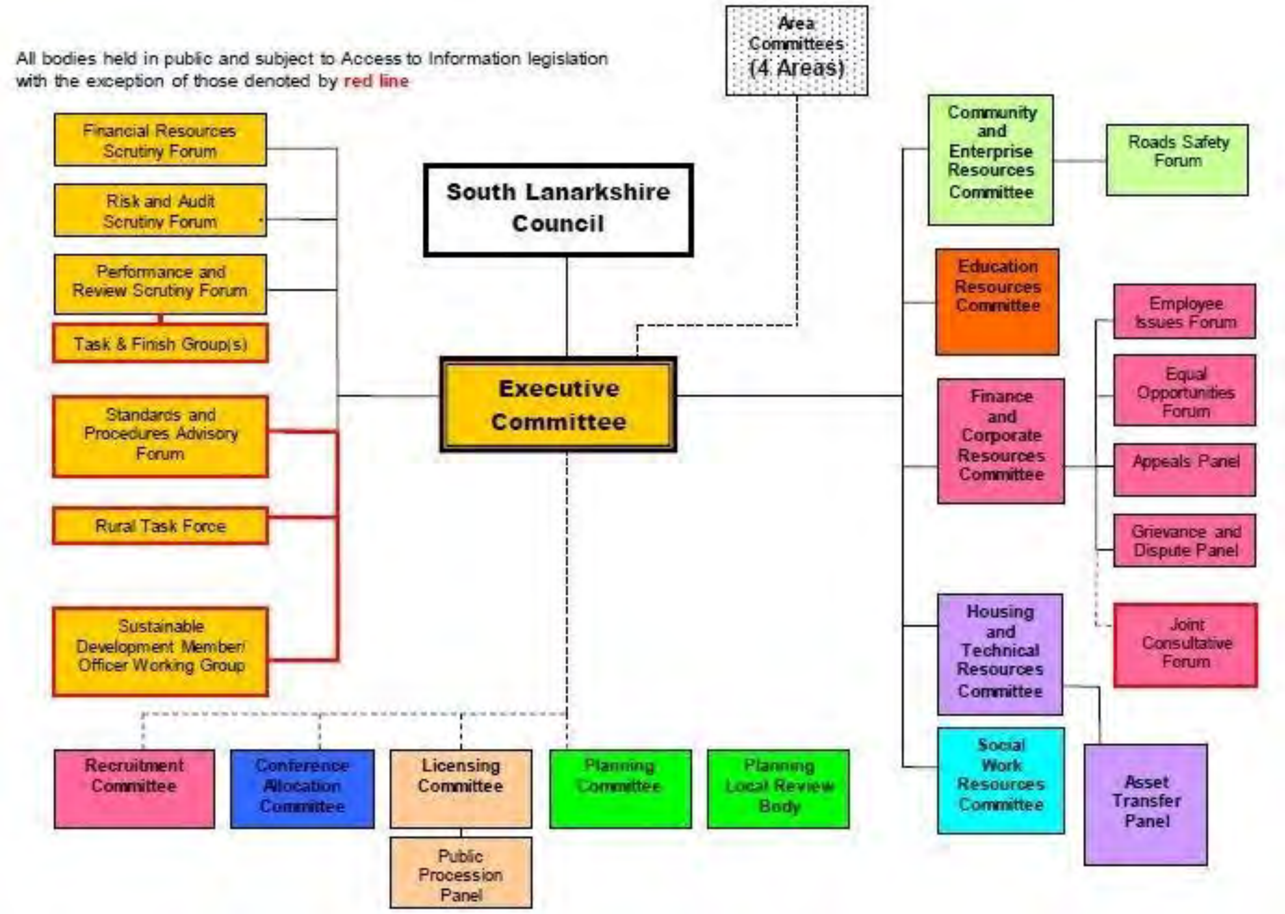
108. There is evidence from several sources which demonstrate the Council's commitment to transparency, including:

- members of the public can attend meetings of the full Council and its committees
- minutes of meetings and supporting papers are readily available on the Council's website

- the Council holds public consultations (both web based and face-to-face) on a wide range of issues.

109. Overall, we concluded that the Council conducts its business in an open and transparent manner. However, Best Value Assurance Report (March 2019) noted that an element of scrutiny and challenge happens outwith committees on a less formal basis. Members need to ensure that all key decisions are seen to be subject to an appropriate level of challenge and scrutiny at public meetings. This includes sufficient discussion and scrutiny of performance and financial reports.

Exhibit 11
South Lanarkshire Council decision-making structure



Source: Establishment of Council's Decision-making Arrangements and Procedures report to South Lanarkshire Council (May 2018)

Integration of health and social care

110. The South Lanarkshire Integrated Joint Board (IJB) was formally established in September 2015. The IJB became fully operational on 1 April 2016 when it began its strategic oversight of the delivery health and social care services for the residents of South Lanarkshire.

111. The IJB allocates the resources it receives from the Council and NHS Lanarkshire in line with its Strategic Commissioning Plan. The IJB set a breakeven budget for 2018/19. This was based on expenditure of £518.556 million comprising contributions of £392.013 million from NHS Lanarkshire and £126.543 million from the Council. The IJB reported an underspend of £2.745 million at 31 March 2019 which, added to a £8.278 million reserve brought forward, increasing its reserves to £11.023 million.

112. The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report, setting out the auditor's judgements and conclusions will be published in due course. The financial transactions of the IJB have been consolidated into the Council's group accounts.

Internal audit

113. The internal audit service, in any organisation, is an important element of internal control. It provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud

114. Audit Scotland's Code of Audit Practice requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. To avoid duplication, we place reliance on internal audit work where possible.

115. We found internal audit to be operating effectively, therefore we planned to place reliance on aspects of internal audit work. In our 'Review of the adequacy of Internal Audit' letter that was presented to the Risk and Audit Scrutiny Committee in February 2019, we noted our intention to rely on internal audit's review into procurement practices within the Council as part of our 2018/19 audit. Internal audit's work this year has focused on a detailed data gathering and analysis exercise. The intention is for this data to be used to undertake a comprehensive review of procurement practices in 2019/20. We will seek to rely on this output as part of our 2019/20 annual audit.

116. All public sector internal audit services are obliged to adopt Public Sector Internal Audit Standards (PSIAS). During 2017, as part of the Council's external quality control arrangements, an external chief internal auditor undertook a review of the Internal Audit function's compliance with (PSIAS). The findings from the review were reported to the Risk and Audit Scrutiny Forum in March 2018 and commented positively on the operation of the Council's Internal Audit function and confirmed that it conforms to PSIAS requirements.

117. PSIAS require the provision of an annual internal audit opinion, to inform the Council's annual governance statement. The Audit and Compliance Manager issued her Annual Assurance Report to the Risk and Audit Scrutiny Committee in June 2019 which included the opinion that: reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2019.

National Fraud Initiative

118. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud. The latest position on NFI investigations by the Council is summarised at Exhibit 12.

Exhibit 12
NFI activity

22,926	2,099	2,907
Matches	**Recommended for investigation**	**Completed/closed investigations**

Source: NFI secure website: www.nfi.gov.uk

119. The results of NFI activity are reported regularly to the Risk and Audit Scrutiny Committee by the Audit and Compliance Manager. Overall, we concluded that the Council is proactive in investigating matches and reporting the outcomes of NFI activity.

Standards of conduct for prevention and detection of fraud and error

120. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

121. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Part 5

Value for money

Main judgements

The March 2019 Best Value Assurance Report says that the Council demonstrates strong leadership, clear direction, a strong culture of continuous improvement and is a well performing Council. The Council is making significant progress in fulfilling its duty of Best Value, and outcomes are improving for citizens.

Public performance reporting on Council services has improved. The Council has 'spotlights' performance pages on its website, using infographics to show the Council's performance, against each of its strategic objectives.

In June the Council approved an action plan in response to the improvement recommendations included in the BVAR.

Best Value

122. South Lanarkshire Council's Best Value Assurance Report (BVAR) was published in March 2019. The Accounts Commission reported on the Council's strong leadership, clear direction, a strong culture of continuous improvement and concluded that it is a well performing Council. 'We are pleased to note the Council continues to demonstrate all of these elements and is making significant progress in fulfilling its duty of Best Value, and outcomes are improving for citizens.'

Best Value is about using resources effectively and continuous improvement in the delivery of services to citizens.

Key Messages in the BVAR

- South Lanarkshire Council performs well and since the last Best Value report in 2009 has demonstrated a steady pace of improvement. The Council has a comprehensive and structured approach to continuous improvement. There is evidence that service redesign and capital investment are improving outcomes for citizens and resulting in efficiencies that will help ensure financial sustainability.

- The Council benefits from effective leadership and clear strategic direction. Officers and Councillors work well together in the interests of the residents of South Lanarkshire.

- The Council demonstrates improved performance in many services but there are other areas where improvement is still required. Service satisfaction survey results from service users differ from those from national household surveys and the reasons for this need to be understood and addressed.

- The Council acknowledges that it needs to review the number and quality of its targets and how it measures progress towards achieving these. This will allow it to provide elected members with a clearer picture of performance against its strategic objectives.

- The Council works well with a range of public-sector, business and academic partners to improve outcomes for citizens. Partners have a shared vision but the links between the Council's Connect Plan and Community Plan could be clearer. The Community Planning Partnership Board needs to take a more active role in driving partnership working.

- The Council needs to improve how it uses community engagement to shape services. It has recently established a Community Participation and Empowerment Team to review its approach to community participation and engagement.

- The Council understands its responsibilities under the Community Empowerment Act, and there is a history of transferring assets to community groups. But the Council and its partners have been slow to progress elements of this Act, including the preparation of locality plans.

- The Council demonstrates sound financial management. It has a strong track record of delivering large scale capital projects on time and on budget. The Council has a good process in place for long-term financial planning. Future financial plans are challenging but the Council is well placed to address projected funding gaps.

123. The BVAR contained ten improvement recommendations, in areas including how community engagement is used to shape services, the role of the Community Planning Partnership Board and the need for elected members to review their training needs. On 26 June 2019, the Council considered the BVAR and approved a comprehensive action plan, in response to the recommendations. By March 2020 the Council plans to have implemented all actions. An update will be reported in next year's Annual Audit Report.

Reporting of Performance (Statutory Performance Indicators)

124. The Accounts Commission places great emphasis on councils' approach to benchmarking and public performance reporting being comprehensive and reflecting local priorities. The Commission does not prescribe how Councils should report this information but has published two statutory performance indicators (SPIs), on which it expects a range of information to be reported:

125. SPI 1: Each Council will report a range of information setting out:

- Its performance in improving local public services (including with partners).

- Its performance in improving local outcomes (including with partners).

- Its performance in engaging with communities and service users and responding to their views and concerns.

- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources.

126. SPI 2: Each Council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

127. The BVAR describes how the Council satisfies the requirements set out in these indicators. Performance against resource measures is reported to the appropriate resource committee and performance against corporate measures is reported to the Performance and Review Scrutiny Forum. Progress reports submitted to the Performance and Review Scrutiny Forum include a summary of performance against measures for each of the Council's Connect objectives, along with details of the main achievements for that objective.

128. The Council manages and reports performance using a system called IMPROVe. IMPROVe uses a traffic light system to show the status of each performance measure. The system is used to track progress against the objectives set out in the Connect Plan and the actions identified within the individual resource plans.

129. The progress report for quarter four of 2017/18 reported on 219 measures to the Executive Committee. Of these, 91 per cent were marked as green, suggesting that they were on track to achieve target performance levels. In the BVAR the Council acknowledged the need to review the number and quality of its performance measures. The BVAR action plan commits to a review of performance reporting by December 2019.

130. The Council participates in the Local Government Benchmarking Framework (LGBF) and it uses the Local Government Benchmarking Framework to identify areas for improvement.

Exhibit 13
South Lanarkshire Council's analysis of LGBF results

KEY:		Number of Indicators		
		2015/16	2016/17	2017/18
↑	Improving performance in SLC	31 (47%)	38 (52%)	39 (49%)
↓	Declining performance in SLC	31 (47%)	28 (38%)	35 (44%)
↔	No change in performance in SLC	3 (5%)	2 (3%)	2 (2%)
N/A	Info not available	1 (1%)	5 (7%)	4 (5%)
✓	SLC results better than Scottish average	37 (56%)	39 (53%)	44 (55%)
X	SLC results worse than Scottish average	27 (41%)	27 (37%)	30 (38%)
↔	SLC results the same as Scottish average	2 (3%)	2 (3%)	2 (2%)
N/A	Info not available	0	5 (7%)	4 (5%)

Source: Performance and Review Scrutiny Forum (September 2018) and the Council's LGBF 2017-18 report of May 2019

131. The BVAR's analysis of service performance reflects the Council's September 2018 annual report, using 2016/17 LGBF indicators, and includes audit analysis of these indicators. The BVAR comments that:

- Performance since 2011/12 has fluctuated but there have been considerable improvements in the last two years.
- The Council demonstrates improved performance in many services but there are other areas where improvement is still required. Of particular note is Education where there has been a trend for year-on-year improvements in performance against several key indicators. The Council's performance framework identifies where improvements are to be made.
- The Council is in the bottom two quartiles for eight of the nine service LGBF satisfaction indicators. Whilst the Council carries out its own customer

satisfaction surveys which show higher satisfaction rates, the Council is now reviewing its approach to assessing resident satisfaction.

132. Since the BVAR was produced the National Benchmarking Overview Report 2017/18 has been published by the Improvement Service. In May 2019 the Council published an analysis of these indicators, exhibit 13. This shows a continuing picture of many services continuing to improve.

Public Performance Reporting

133. The Council has improved its approach to public performance reporting. In 2017/18, it introduced 'spotlights' performance pages on its website, designed to give the public an overview of Council performance. Spotlights use infographics to present information on the Council's performance, making it more accessible for the public. The infographics show performance against measures for each of the Council's 11 strategic objectives. Further development is ongoing to ensure that all infographics clearly show whether targets have been met, and whether performance is improving or deteriorating over time.

National performance audit reports

134. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in appendix 3.

135. During 2018/19 we noted that all relevant national reports, including the Financial overview 2017/18 report, were taken to the Risk and Audit Scrutiny Committee for consideration. These were accompanied by the completed self-assessment checklists, and other supplementary information explaining how the findings and recommendations relate to the specific circumstances of South Lanarkshire Council. We welcome this positive response to our national reports.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	Duplicate entries in the year-end sundry debtors print. **Risk** Entries to the financial statements cannot be satisfactorily verified.	Management should further investigate the reasons for the running of this print job and ensure that the relevant staff have adequate written procedures for year-end closedown of debtors. Management should remind all relevant staff /suppliers that a system download should be taken at 31 March each year to ensure that data is available to support the preparation and audit of the financial statements. Paragraph 14	Agreed Head of Finance (Transactions) 31 March 2020
2	The management commentary complies with guidance but could be further improved to provide a more user-friendly exposition of the Council's performance. **Risk** Stakeholders are unable to easily understand the Council's performance.	The Council should consider a review of the presentation of information in the management commentary for future years. Paragraph 17	The Council had taken on board previous advice from the auditor in relation to the content and tone of the management commentary. We will work with the auditor to ensure that the narrative continues to reflect their advice. Head of Finance (Strategy) 30 June 2020
3	A business case was prepared to support the loans fund reprofiling proposal, but this was not provided to members. **Risk** The information provided to members is not sufficient to allow them to effectively scrutinise the proposal.	Management should ensure that the business case for future reprofiling exercises is provided to members. Paragraph 42	Agreed Head of Finance (Strategy) Ongoing

No.	Issue/risk	Recommendation	Agreed management action/timing
4	Payroll overpayment reports to 31 March 2019 had a total value of £0.248 million. **Risk** Payroll overpayments that are not recovered will result in financial loss to the Council and potentially attract bad publicity through the media.	Management should continue to review the processes in place to prevent, detect and recover payroll overpayments. Paragraph 79	The Council pursues all overpayments vigorously. These can arise due to a number of reasons including an employee leaving with no notice. Of the overpayments there were only 12 without repayment plans totalling £0.030m. As a percentage of total salaries paid for the year, the outstanding overpayments equates to a minimal value. System solutions to assist processing employee changes are being explored. Head of Personnel March 2021
Follow up of prior year recommendations			
5	**Capitalisation of grouped expenditure** During 2017/18 the cost of a number of capital expenditure programmes had been added to the asset register as a single asset record. **Risk:** There is a risk that future events impacting upon the value of the constituent assets (for example: disposal, replacement or impairment) are not reflected in the asset register.	The Council should review these items during 2018/19 to identify the major assets within each record.	We undertook a review of the asset register and did not identify any generic asset codes containing multiple capital expenditure programmes.
6	**Holiday pay accrual** A number of anomalies were identified in the data originally used to calculate the holiday pay accrual. **Risk:** There is a risk that the data used in this calculation does not accurately reflect the position at the year-end.	Management should investigate the source of the errors in the data to ensure that accurate information is available in the future.	Management undertook a detailed exercise to ensure that the data used for the 2018/19 accrual was complete and error free.
7	**Budget monitoring** Budget monitoring and reporting does not provide members with early indications of the projected annual outturn	Budget monitoring and reporting needs to be further improved to provide members with an earlier indication of the projected annual outturn and	Budget monitoring and reporting now provides members with projected annual outturns.

No.	Issue/risk	Recommendation	Agreed management action/timing
	and clear explanations of budget variances. **Risk:** There is a risk that members are not able to scrutinise and challenge as effectively as they might.	clearer explanations of budget variances.	
8	**Corporate items budget** An underspend of £4.513 million (64%) was reported on the corporate items budget. **Risk:** The budget for corporate items continues to have excess budget allocated to it potentially denying the use of resources elsewhere	The Council should continue to closely monitor these budget elements to ensure they reflect actual costs or income.	Similar issues identified in 2018/19 and again reported.
9	**Performance management** The current IMPROVe performance reporting does not demonstrate that resources are delivering the required actions and contributing towards continuous improvement. **Risk:** Members are not provided with a clear picture of performance.	The Council should review their internal reporting to ensure elected members are being provided with a clear picture of performance against the Connect objectives.	The BVAR action plan commits to a review of performance reporting by December 2019. Revised date: December 2019

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
Risks of material misstatement in the financial statements		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.	• Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.	• Journal adjustments were tested, and no indications of management override of controls were found. • Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied. • We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year. • We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business
2 Risk of fraud on income ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.	• Walk through of controls over income systems. • Analytical procedures on income streams. • Sample testing of revenue transactions.	• Our testing of income controls did not identify any issues. • We obtained satisfactory explanations for any significant increases or decreases in income. • Satisfactory results obtained from our testing of transactions.
3 Risk of fraud on expenditure The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. The Council incurs significant expenditure in areas such as welfare benefits, grant payments and procurement	• Audit work on the National Fraud Initiative matches. • Audit of grants. • Analytical procedures on expenditure streams. • Sample testing of expenditure and housing benefit transactions.	• We concluded that the Council is proactive in following up NFI matches. • No control weaknesses were identified in relation to grant schemes. • We obtained satisfactory explanations for any significant increases or decreases in expenditure.

	Audit risk	Assurance procedure	Results and conclusions
	expenditure, which present a risk of fraud over expenditure.		• No significant issues were identified from our testing of expenditure and housing benefit transactions disclosed in the 2018/19 financial statements.
4	**Estimation and judgments** There is a significant degree of subjectivity in the measurement and valuation of some material account areas which represents an increased risk of material misstatement in the financial statements. • Valuations on non-current assets rely on expert valuations and management assumptions. • The value of the Council's pension liability is an estimate based on information provided by management and actuarial assumptions. • The Council's provision for impairment of debts is based on management assessments of the recoverability of debts.	• Review of the work of the valuer and actuary. • Focused substantive testing of classification and valuation of assets. • Review appropriateness of actuarial assumptions. • Confirm pension valuations in actuarial report are correctly reflected within the 2018/19 accounts. • Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience.	• Our review of the work of the Council's valuation team confirmed the appropriateness of the methodology and assumptions used. • Our revaluation work did not identify any issues. • We assessed the reliability of the actuary and reviewed their work. No issues were noted. • Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. This included verification of pension entries in audited accounts to revised IAS19 report reflecting impact of McCloud ruling and the guaranteed minimum pensions issue. • We undertook a review of the Council's provision for the impairment of debtors and concluded that the methodology applied by management was reasonable and consistent with prior years.
5	**Non-current asset accounting** Our 2017/18 audit identified that a number of capital expenditure programmes had been added to the asset register as a single asset record. The grouping of these assets makes it difficult to account for the impact of future events on the value (disposal, replacement or impairment) of individual assets or constituent parts of an individual asset. There is a risk that the value of grouped expenditure is incorrectly accounted for in the financial statements.	• Focused substantive testing on non-current asset balances. • Review of the valuation process when an asset is disposed, replaced or impaired.	• We selected a sample of in year additions, disposals, transfer and revaluations from across all asset categories. No further instances of grouped expenditure were found.
6	**Holiday pay accrual** Our 2017/18 audit identified a number of anomalies in the data used to calculate the holiday pay accrual.	• Review of the 2018/19 holiday pay accrual during the financial statements audit.	• As part of the 2018/19-year end accounts process, management undertook a detailed exercise to ensure that the data used for the 2018/19 accrual was complete

	Audit risk	Assurance procedure	Results and conclusions
	There is a risk that the holiday pay accrual is mis-stated in the financial statements.		and error free. However, the accrual included in the 2018/19 unaudited accounts did not take into consideration the 2017/18 audit adjustment to this figure. The prior year unaudited figure was used as the starting point. Therefore, the figure in this year's accounts was overstated by £0.658 million. Management have amended this in the audited accounts.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
7	**EU withdrawal** There are considerable uncertainties surrounding the implications of EU withdrawal. There is a risk that the services delivered by the Council could be adversely affected by EU withdrawal.	• We will use guidance produced by Audit Scotland and review the discussions and outputs of the Council to assess the extent of issues and preparations for EU withdrawal. • Consider how the Council responds to any emerging issues after March 2019.	• The Council has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. We will continue to monitor the Council's preparations for, and response to, EU withdrawal over the coming months.
8	**Openness and transparency** The Council's Privacy Policy, Information Compliance Policy and Data Protection Access Request Form refer to outdated obligations in the now superseded Data Protection Act 1998. There is a risk that the failure to update key policies to reflect current legislation reduces transparency to the public, while inaccurate guidance for employees could lead to non-compliance with GDPR obligations.	• We will review the updated policies when they become available.	• The Council have updated the relevant polices to ensure they comply with the updated legislation.

Appendix 3
Summary of national performance reports 2018/19

Local government relevant reports

Local government in Scotland: Challenges and performance 2018 – April 2018

Councils' use of arm's-length organisations – May 2018

Health and social care integration: update on progress – November 2018

Local government in Scotland: Financial overview 2017/18 – November 2018

Local government in Scotland: Challenges and performance 2019 – March 2019

South Lanarkshire Council

2018/19 Annual Audit Report

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