

North Lanarkshire Council

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

October 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts of the Council, its group and the two section 106 charities administered by the Council are unmodified.

Financial management and sustainability

- 2 The Council has a well-developed medium-term financial plan with a cumulative funding gap of £108 million.
- 3 The Council faces difficult decisions in order to remain financially sustainable. This includes decisions around transformation and disinvestment. It is increasingly important that the Council retain its focus on financial resilience, including ensuring it has sufficient reserves to meet unforeseen costs.

Best Value

- 4 The Council has a clear ambitious vision as detailed in the Plan for North Lanarkshire which has been driven by effective leadership.
- 5 The Best Value Assurance Report on North Lanarkshire Council published in May 2019 made eight recommendations which are now considered complete.

Vision, leadership and governance

- 6 The Council has effective and appropriate governance arrangements for delivery of its plans.

Use of resources to improve outcomes

- 7 The Council has a well-established self-evaluation framework in place which supports continuous improvement.
- 8 The Council's significant trading operations did not comply with the statutory requirement to break even.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of North Lanarkshire Council. The scope of the audit was set out in an annual audit plan presented to the 18 May 2023 meeting of the Audit and Scrutiny Panel. This Annual Audit Report comprises:

- significant matters arising from an audit of North Lanarkshire Council's annual accounts
- conclusions on North Lanarkshire Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

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

Audit appointment from 2022/23

3. I, John Boyd, have been appointed by the Accounts Commission as auditor of North Lanarkshire Council for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank councillors, audit and scrutiny panel members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. North Lanarkshire 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. The Council is also

responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. 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 of the Council from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. 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 2022/23 audit fee of £607,796 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to North Lanarkshire Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts of North Lanarkshire Council, its group and the two section 106 charities administered by the Council are unmodified.

Adjustments have been made to the annual accounts as a result of the audit process.

Audit opinions on the annual accounts are unmodified

11. The Audit and Scrutiny Panel approved the annual accounts for North Lanarkshire Council and its group for the year ended 31 March 2023 on 25 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- 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 was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £26.7 million

12. Broadly, auditors apply the concept of materiality to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

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

Exhibit 1

Materiality values

Materiality level	Council	Group
Overall materiality	£26.7 million	£29.3 million
Performance materiality	£16.0 million	£17.6 million
Reporting threshold	£250,000	£250,000

Source: Audit Scotland

14. The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60 per cent of overall materiality, reflecting audit findings reported in prior year and risks identified at planning.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Council, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Valuation of land and buildings including prior period restatement</p> <p>A number of audit findings were identified from our audit work on valuations:</p> <ul style="list-style-type: none"> The Council adopts a five year rolling programme for valuations of other land and buildings based on type of properties. 2022/23 is the last of the agreed five year rolling programme covering council dwellings, car parks, miscellaneous and planning, and development properties. The Council also undertook an exercise on the value of Education properties. The valuation date for these assets was 1 April 2022. Given recent significant inflationary pressures on build cost rates there is an increasing risk of a material movement between the date of revaluation and 31 March. Valuations should reflect conditions as at 31 March. It is important the Council continues to ensure the carrying value of the non-current assets in the balance sheet are materially correct at 31 March. The Council uplifted the value of land and buildings for education properties in 2021/22 by £141.6 million based on movements in BCIS rates. The valuation undertaken as at 1 April 2022 highlighted that these assets were materially misstated, and the Council restated its land and buildings value at 31 March 2022. Sample testing of education properties valued using depreciated replacement cost (DRC) identified finance costs had been incorrectly included by the Council's external valuer. We also found some inconsistencies in the data used by the valuer and the underlying council records. 	<p>The Council processed a prior year restatement based on updated valuations including the removal of finance costs. The impact of this restatement on the main financial statements was:</p> <ul style="list-style-type: none"> reduction to the value of other land and building assets by £135.2 million (reversal of £141.6 million indexation uplift and application of schools revaluation of £6.4 million) corresponding reduction in unusable reserves (£135.2 million revaluation reserve and £10.6 million to capital adjustment account) an adjustment of £10.6 million was made to reinstate the depreciation charge for Education properties. <p>A restatement disclosure was included in the annual accounts which is not in full accordance with reporting standards but we are satisfied that is not materially misleading.</p> <p>The Council's valuer revisited the valuation to remove the finance costs incorrectly included in the carrying value of assets revalued and assessed the data used in the valuation. This resulted in a £27.1 million reduction in the carrying value of Education properties.</p> <p>Recommendation 1</p> <p>The Council should continue to consider its approach to the valuation of land and buildings going forward and ensure this is appropriate to assess whether asset values have moved materially in year and as at 31 March. The Council should work with its valuers to ensure valuations are in accordance with the Accounting Code of Practice requirements. Appropriate scrutiny of the valuation work completed should be undertaken to ensure these are consistent with the Council's records.</p> <p>(Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>2. Capital processes</p> <p>Our audit work on non-current assets identified the following issues:</p> <ul style="list-style-type: none"> • From review of the fixed asset register, four education assets with a net book value totalling £4.2 million were not included in the valuation exercise as 1 April 2022. Whilst the overall value of these properties is not material and therefore the accounts are not materially misstated, the Council should review its revaluation practices to ensure assets are not omitted from the valuation exercise. • Each service area is responsible for reviewing its assets for indicators of impairment and notifying finance via the Year End Capital Return process. No impairments were identified by service areas. However, the Council should ensure all services are aware of all non-current assets within their service area. • The Accounting Code of Practice requires depreciation to be provided separately on each significant part (i.e. component) of an item of property, plant and equipment. Assets are not held on the Council's fixed asset register in this way. Therefore, there is a risk that assets could be overstated by not removing the replaced component when capital expenditure is incurred on a specific asset. 	<p>We are satisfied that the issues identified are not material to the accounts. However, the Council should review a number of its capital processes to ensure the value of assets is correctly held in the accounts (see below).</p> <p>Recommendation 2</p> <ul style="list-style-type: none"> • The Council should review the revaluations provided by its valuers to ensure all assets have been included. • The Council should review its capital impairment process to ensure it is robust enough to identify potential indicators of impairment across all assets. • The Council should also consider how assets are held on its fixed asset register to ensure compliance with the componentisation requirements of the Code. <p>(Refer Appendix 1, action plan)</p>
<p>3. Significant trading operation</p> <p>Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three year period.</p> <p>The creation of a single combined Trading Account was approved in January 2014 to monitor and report the commercial trading activity of the Council (currently includes Building Cleaning, Waste Management and Town Centre Activities).</p> <p>The Council reported a deficit of £0.1 million over the three year period. This includes a</p>	<p>We recommend that a review is carried out of the trading operation to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p> <p>Recommendation 3</p> <p>(Refer Appendix 1, action plan)</p>

Issue	Resolution
technical accounting adjustment for IAS 19 Employee Benefits. Excluding these costs, the trading operation would have generated a three year surplus of £0.8 million.	

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management are in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries where there may be increased incentive for fraud and management override.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p>	<p>Results: We found no instances of material misstatement due to fraud caused by management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
	Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.	
<p>2. Estimation in the valuation of land and buildings</p> <p>The Council held land and buildings with a net book value of £2,860 million as at 31 March 2022. There is a significant degree of complexity and subjectivity in the valuation of land and buildings. Changes in assumptions can result in material changes to valuations.</p> <p>Valuations should reflect conditions at 31st March 2023 including those subject to valuation at the year end, earlier in the year and those not re-valued. This is particularly relevant given the significant inflationary pressures on build cost rates. There is a risk that the carrying value of land and buildings does not reflect the current value as at 31 March 2023.</p>	<p>Reviewed the information provided to the external valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the internal and external professional valuers.</p> <p>Obtained an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Assessed the reasonableness of the assumptions used in the valuation applied.</p> <p>Critically assessed the approach North Lanarkshire Council has adopted to assess the risk that assets not subject to valuation at 31 March 2023 are materially misstated, considered the robustness of that approach and the appropriateness of any assumptions made.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Critically assessed the adequacy of North Lanarkshire Council's disclosures regarding the assumptions in relation to the</p>	<p>Results: Our findings in respect of the audit work we carried out are detailed in Exhibit 2.</p> <p>Following challenge and scrutiny of the valuation process, adjustments have been made to the financial statements to ensure that the carrying value of land and buildings represent fair value at 31 March 2023. This has included restatement of balances as at 31 March 2022.</p>

Audit risk	Assurance procedure	Results and conclusions
	valuation of land and buildings.	

Source: Audit Scotland

20. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- The pension liability valuation due to the material value and significant assumptions used in the calculation of the liability. We utilised the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the Council’s actuary, Hymans Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2023.

21. A significant increase in the net discount rate in year led to a large decrease in the pension liability which resulted in a net asset position.

22. The Accounting Standard (IFRIC 14) imposes a limit on the maximum amount of surplus which can be recognised. The Council requested a further actuarial calculation to restrict the asset recognised to the benefit the Council anticipates receiving. This resulted in the net pension asset held on the balance sheet being limited to £53.2 million by making a £721.1 million adjustment. We have considered the assumptions and methodology applied in determining the net asset and are satisfied these are consistent with the requirements of IFRIC 14.

23. The accounts also require a pension liability in relation to unfunded liabilities to be recognised. The Council made an adjustment to the unaudited accounts to correctly recognise a liability of £119.5 million for unfunded pensions on its balance sheet.

There remains an ongoing risk to the Council on the application of Reinforced Autoclaved Aerated Concrete

24. Reinforced Autoclaved Aerated Concrete (RAAC) was widely used in the construction of floors and roofs from the 1950s to early 1990s. Recent investigations have identified that leaks or water exposure could lead to the deterioration of RAAC planks.

25. The Scottish Government are working in partnership with the UK Government on research into the extent of the use of RAAC in public buildings and public bodies, including the Council, have been advised to check as a matter of urgency whether any buildings in their estates have roofs, floors, cladding or walls made of RAAC.

26. The Council has undertaken an assessment of its estate and identified the existence of RAAC in five buildings. As a result, the Council has impaired three

of these buildings and processed an impairment of £10.4 million. Two buildings were not impaired because one is a leased asset and the other is not material.

27. The impairment of the buildings reflected the full carrying value of the assets. In accordance with IAS 36, the Council is required to make a formal estimate of the recoverable amount of the asset. The recoverable amount of an asset is the higher of its net selling price and its value in use (i.e. the cost of providing the service potential provided by the asset). In our view, while we recognise the assets are impaired, a more accurate measure of the level of impairment should be determined. However, we are satisfied that the impairment recognised would not result in a material error to the accounts.

28. Work is ongoing at the Council to fully understand the impact of RAAC and any potential remediation work required. Until the Council concludes this assessment across its full estate to include housing and commercial properties, the full impact of RAAC is unknown.

Identified misstatements totalling £158.2 million were adjusted in the financial statements

29. We identified a number of misstatements in the financial statements totalling £158.2 million. This includes the £119.5 million adjustment recognised for the unfunded pension liability ([paragraph 23](#)) and the impairment of £10.4 million due to RAAC ([paragraph 26](#)). Other adjustments are detailed in [Appendix 2A](#). Adjustments were processed to the annual accounts and we concluded that further audit procedures were not required. The misstatements arose from issues that were isolated and identified in their entirety and therefore do not indicate further systemic error.

A number of non-material misstatements were identified within the financial statements

30. We identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2B](#).

The unaudited annual accounts were received in line with the agreed audit timetable

31. The unaudited annual accounts were received in line with our agreed audit timetable on 29 June 2023.

32. Our original audit timetable included a target date for the delivery of our final outputs of September 2023. However, the delays in commencing our audit work this year due to overruns as a result of the Covid-19 pandemic and the need to maintain the quality of our audit, led to a review of resource plans across all audits. We agreed a revised timetable with officers on the delivery of our audit fieldwork for completion by October 2023.

Reasonable progress was made on prior year recommendations

33. The Council has made reasonable progress in implementing prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Our audit opinions on Section 106 charities were unmodified

34. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of North Lanarkshire Council are sole trustees, irrespective of the size of the charity.

35. Our audit opinions on the Section 106 charities are unmodified. These covered the 2022/23 statement of accounts on North Lanarkshire Council Educational Endowments and the JC McNaught Poor Children's Holiday Fund.

The trustees of the JC McNaught Poor Children's Holiday Fund should consider the future use of the trust

36. As the appointed auditors of the Section 106 charities administered by the Council, we are required to consider whether the funds held within the trusts are being used for the purposes intended. This includes reporting any inappropriate use of funds or prolonged lack of activity.

37. The trust has not made any payments in the last five years. The Council aims to transfer to an Office of the Scottish Charity Regulator (OSCR) agreed beneficiary charity. The timescale for transfer is dependent on identifying a suitable beneficiary and subsequent approval by OSCR. The Council should continue to work with OSCR to progress this as there has been no progress for a number of years.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

The Council reported an outturn service underspend against budget of £24.3 million. The Council has appropriate budget setting and monitoring arrangements in place.

The scale of the savings delivered by the Council means its future financial plans are becoming increasingly challenging.

The Council operated within budget in 2022/23

38. The Council approved its 2022/23 budget in February 2022. The budget was set at £887.3 million with net savings of £7.1 million. This was revised to a final budget of £891.4 million as a result of additional funding received in year for the following:

- directed funding for Adult Social Care
- Free School Meal Expansion monies
- Local Heat and Energy Efficiency Strategy funding
- additional Discretionary Housing Payment funding.

39. This additional funding was offset by a reallocation of Scottish Child Payments Grant to agency managed grants.

40. The Council reported a service underspend against budget of £24.3 million at provisional outturn. This includes an underspend of £22.1 million at a corporate level. Half of this underspend is in Financing Costs. This is due to prudent management of the Council's borrowing and cashflow position, a reduction in forecast expenditure on the capital programme, and an over recovery of interest earned on revenue balances as a result of higher interest rates.

41. There are variations in how different services have performed. These are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant underspends and overspends against budget

Service Area	£m	Reason for variance
Underspends		
Chief Executives and Other Corporate Services	£5.2	Lower than budgeted contract costs due to delays in transferring to a cloud environment and an underspend in employee costs due to vacancies savings.
HRA	£2.1	Underspend in employee costs due to vacancy savings and the reversal to increased national insurance rates.
Overspends		
Education and Families	£2.8	Overspend in property costs due to increased utilities/energy costs arising from inflationary pressures.
Enterprise and Communities	£2.4	Overspend due to inflationary pressures in relation to cost of utilities, food, fuel materials and waste tonnage.

Source: North Lanarkshire Council budget monitoring reports

Housing revenue account operated within budget

42. The Council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

43. The Housing Revenue Account reported an in-year surplus of £6.8 million. This has increased the balance brought forward resulting in a cumulative surplus of £26.3 million.

44. The HRA balance of £26.3 million forms part of the General Fund. £11.3 million of this has been approved for specific purposes (see below) which leaves an unallocated balance of £15.0 million.

- £4.4 million for Council Ambition
- £2.5 million for the HRA capital energy efficiency programme
- £1.5 million set aside for an approved contingency fund.

The Council has appropriate budget setting and monitoring arrangements in place

45. The Council continues to balance its budget each year and maintains its level of reserves in line with its Reserves Policy.

46. 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.

47. We reviewed budget monitoring reports throughout the year. The projected surplus increased as the year progressed. 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 senior management and members to carry out effective scrutiny of the Council's finances.

48. We concluded that the Council has appropriate budget setting and monitoring arrangements in place.

There has been an increase in the level of General Fund reserves

49. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the Council increased from £290.0 million in 2021/22 to £325.4 million in 2022/23.

50. The General Fund is the largest usable reserve and is used to support the delivery of services. Total General Fund reserves now stands at £249.9 million and includes £174.7 million earmarked for specific future commitments such as:

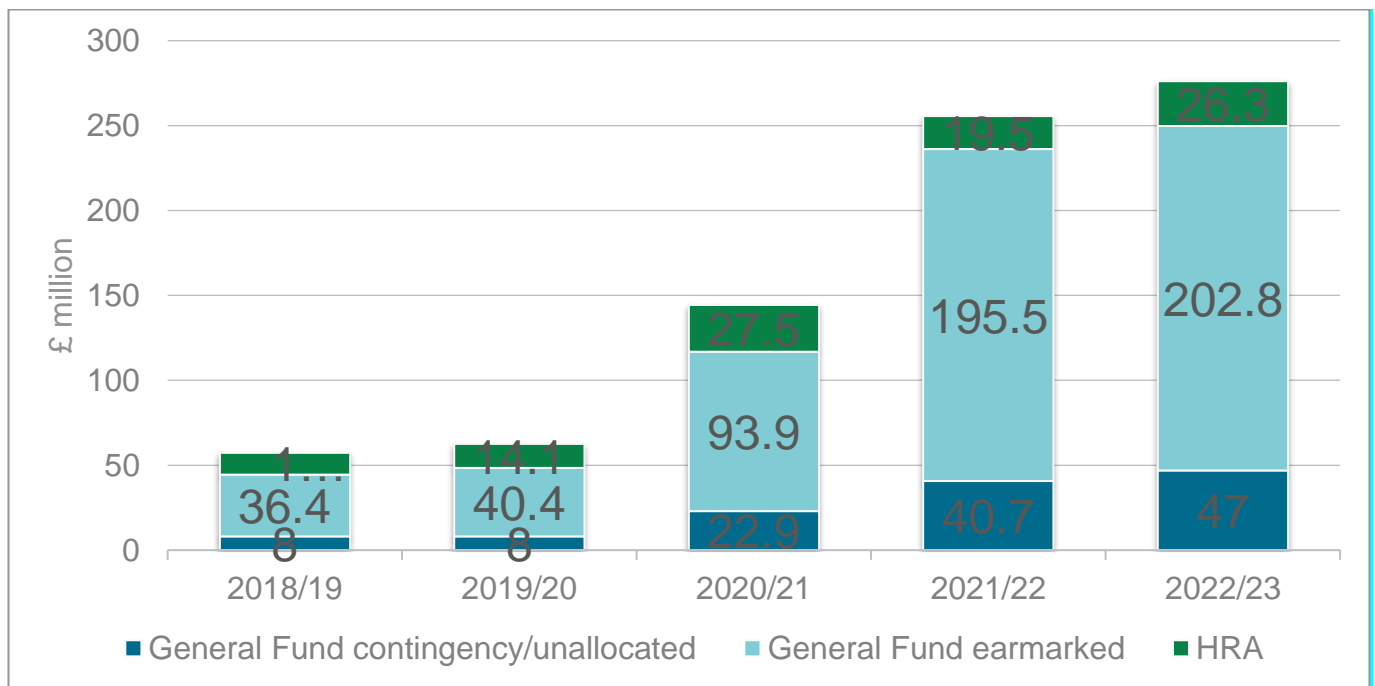
- £56.3 million held for future contractual obligations for Public Private Partnership schools
- £21.1 million for budget one-off investment 2023/24 – 2024/25
- £10.9 million for temporary teachers
- £13.0 million for strategic workforce planning.

51. The Council also maintains a Change Management Fund of £28.1 million. This fund is used by the Council to support future budget pressures, one-off costs of approved savings and transformation initiatives. Therefore, its aim is to support financial planning in the medium to longer term.

52. The Council holds a £8.0 million contingency within earmarked reserves. This is held to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

53. [Exhibit 5](#) provides an analysis of the General Fund and HRA over the last five years and shows the significant increase in reserves over the last three years due to surpluses. This is largely the result of Covid-19 funding in 2019/20 and 2021/22.

Exhibit 5 Analysis of General Fund balance



Source: North Lanarkshire Council Annual Accounts 2022/23

The scale of the savings delivered by the Council means its future financial plans are becoming increasingly challenging

54. In February 2020 the Council approved a three-year savings programme of £40 million, alongside the budget setting process. The budget set in February 2022 incorporated planned savings of £10.5 million for 2022/23.

55. Following the budget setting in February 2022, the Council approved a savings target of £10.5 million for 2022/23. The savings target was reduced to £7.1 million after £3.4 million of resources were set aside. £2.0 million was set aside from the General Fund to manage the financial impact of the delayed implementation of the Active and Creative Communities. A further £1.4 million was earmarked from IJB reserves on delayed closure of the Muirpark facility.

56. The Council achieved actual savings of £5.3 million (75% of this total), leaving an in-year savings gap of £1.8 million. The shortfall was dealt with through alternative savings and management action including:

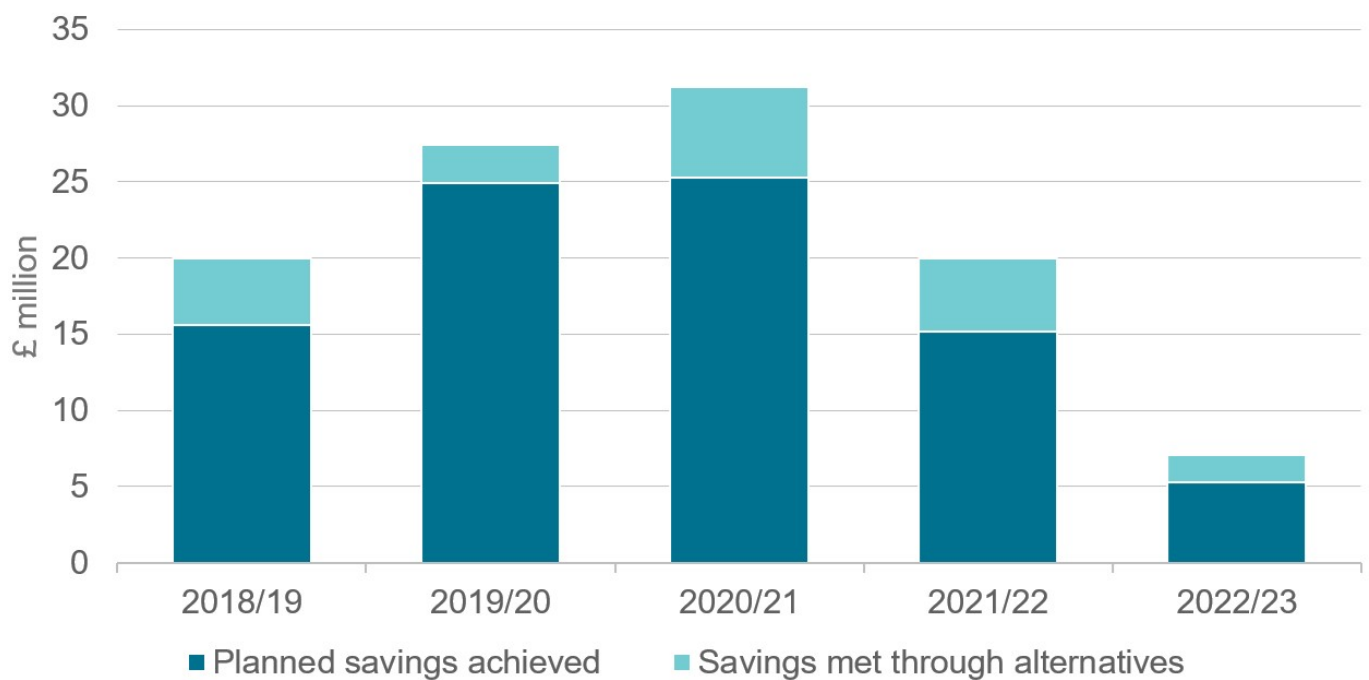
- revising service operating models
- introducing fees or charges for services
- reducing levels of service provision
- implanting efficiency measures.

57. The Council has a track record of delivering savings but given the scale of savings already delivered, its future financial plans are becoming increasingly challenging.

58. As illustrated in [Exhibit 6](#), the Council has delivered total cumulative savings of £105.8 million since 2018/19 – £86.3 million of these have been planned savings.

Exhibit 6

Savings – planned savings achieved and those met through alternatives



Source: North Lanarkshire Council's Annual Accounts 2018/19 to 2022/23

The Council continues to face challenges in delivering its Strategic Capital Investment Programme

59. The Strategic Capital Investment Programme for 2023/24 was approved at Policy and Strategy Committee in March 2023. Total capital expenditure in 2022/23 was £234.6 million which is an increase of £63.4 million since last year.

60. Although capital spend increased since last year, it is still lower than planned. This is due to a number of factors impacting the construction industry which include: continuing recovery from Covid-19, Brexit and the Russian invasion of Ukraine. The Council has therefore reprofiled the capital programme across the five year period.

61. A revised Capital Plan will be in place next year which will be supported by a revised Capital Strategy. These will be driven by the updated Corporate Asset Management Plan that was approved in September 2022. The aim is to ensure alignment with the Council's updated Programme of Work.

Borrowing levels have increased during the year

62. At 31 March 2023, long term borrowing stood at £476.1 million, an increase of £36.2 million on the 2022 level of £439.9 million. During the same period, short term borrowing also increased from £250.1 million to £281.2 million.

63. Total external debt, which includes the Council's long-term liabilities, was within the authorised limit and operational boundary set in the Treasury Management Strategy. The current borrowing position complies with the Prudential Code, and the Council will continue to consider the affordability of future borrowing.

Key financial controls generally operated effectively during 2022/23

64. As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. Our objective was to gain assurance that it has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

65. We concluded that the key controls in the main financial systems were generally operating effectively. However, we did identify one control that could be strengthened in the processing of non-domestic rates reliefs and council tax discounts.

66. For non-domestic rates reliefs and council tax discounts, officers should take a sample of new reliefs (for non-domestic rates) and new discounts (for council tax) awarded each month and carry out second officer checks. For 2022/23, these checks were not completed until after the year end.

67. The previous auditors recommended that the second officer checks are completed throughout the year for a sample of new and continuing reliefs and discounts across all categories. For 2023/24 we have confirmed that second officer checks have been carried out monthly since May 2023 therefore we consider this recommendation complete. Please see [Appendix 1](#).

68. Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in

the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

69. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy, anti-bribery policy and codes of conduct for councillors and officers.

70. We assessed these arrangements to ensure that they were appropriate and that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. Overall, we concluded that the Council's arrangements are appropriate.

The Council has well-established arrangements for investigating and reporting data matches identified by the NFI

71. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

72. The current NFI exercise runs over 2022/23 and 2023/24 and participating bodies began to receive matches for investigation in January 2023. These matches are categorised by risk and all recommended matches, plus any further matches based on findings, should be investigated.

73. The Council has participated in the initiative for a number of years and has well-established processes in place for investigating the data matches identified by the NFI and reporting the results to the Audit and Scrutiny Panel. Good progress has been made by the Council in investigating the matches from the current NFI exercise.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The Council has a well-developed medium-term financial plan with a cumulative funding gap of £108 million.

The Council faces difficult decisions in order to remain financially sustainable. This includes decisions around transformation and disinvestment. It is increasingly important that the council retain its focus on financial resilience, including ensuring it has sufficient reserves to meet unforeseen costs.

Audit work has addressed the wider scope risk identified in our Annual Audit Plan

74. [Exhibit 7](#) sets out the wider scope risk relating to financial sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 7

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

Audit risk	Assurance procedure	Results and conclusions
<p>Financial sustainability</p> <p>North Lanarkshire Council continues to operate in an increasingly complex and challenging environment where they aim to provide the best possible service within the resources available. Although plans are in place to meet the 2023/24 shortfall, the Council,</p>	<ul style="list-style-type: none"> Reviewed the Council's annual budget setting arrangements Reviewed and assessed budget monitoring arrangements 	<p>Results:</p> <p>We reviewed the Council's medium term financial plan and concluded that clear plans are in place and are regularly reported and reviewed.</p> <p>The Council recognises the financial challenges facing</p>

Audit risk	Assurance procedure	Results and conclusions
<p>like many authorities face significant financial challenges over the medium term. Officers have identified a considerable gap to be addressed in the medium term with £65 million for the three years to 2025/26. The delivery of this level of savings is likely to require careful consideration of the services the Council delivers and how these are delivered.</p> <p>There is a risk that the Council does not have robust plans to identify and deliver the required savings, including assessment of the impact on services of decisions made.</p>	<ul style="list-style-type: none"> Review of the Council's medium to longer-term financial planning Reviewed the Council's financial position and delivery of planned savings 	<p>the organisation and have appropriate measures in place to assess and monitor financial sustainability and resilience.</p>

Latest budget monitoring reports project a small surplus for 2023/24. However, the Council recognises that it faces significant financial challenges in the coming years

75. The General Fund Revenue Budget for 2023/24 of £978.6 million was approved by the Council in February 2023. This included spend which is offset by ring fenced grants of £50.6 million and capital grant funding in lieu of pay award funding of £7.7 million. Further funding which included additional directed funding for pay awards resulted in an overall budget of £940.1 million for 2023/24.

76. Budget monitoring reports to June 2023, presented to the Finance and Resources Committee, report a projected small surplus of £0.9 million against this budget.

77. A savings total of £15.1 million was approved as part of the budget setting process for 2023/24:

- £7.5 million for 2023/24
- £4.0 million for 2024/25
- £3.6 million for 2025/26.

78. An update on the achievement of these financial savings was presented to the Finance and Resources Committee in September 2023.

79. For 2023/24, £7.4 million out of £7.5 million of approved savings are expected to be delivered within the financial year. Replacement savings of

£0.07 million have been identified through a range of activities to meet the shortfall. These include control of vacancies and use of temporary contracts.

80. The Council has recently established a Financial Planning Advisory Group which has cross party membership. This group will play an important role in working with officers to identify options to address the financial challenges facing the Council and monitor implementation of savings plans.

81. The medium-term financial plan informs the rolling three-year budget setting process. The plan is updated annually and forms the basis of the council's savings plans. The plan includes a range of risk-based outcomes which are presented over three scenarios: optimistic, envisaged and pessimistic.

82. An interim update to the medium-term financial plan, covering financial years 2024/25 to 2028/29, was approved by the Policy and Strategy Committee in June 2023. The Council's projections over the five years to 2028/29 forecast an envisaged cumulative funding gap of £108 million. The envisaged cumulative funding gap over the next three years is £64 million.

The Council faces difficult decisions in order to remain financially sustainable. This includes decisions around transformation and disinvestment.

83. The Council recognises that it faces significant financial challenges. While the Council has delivered a reported level of savings of nearly £100 million over the last five years, officers recognise that the scale of the challenges in the coming years will require difficult decisions which alongside efficiency and transformation activity will likely require the disinvestment in services.

84. In September 2023, following a detailed review of the Council's active and creative communities' facilities, including utilisation, condition, and operating costs, the Policy and Strategy approved the closure of 39 facilities to support a financially sustainable operating model. However, this decision was reversed a week later following vote by full Council following public focus on the decision.

85. The original decision to close the facilities highlights the significant challenges facing the Council and the reversal requires alternative areas of savings or disinvestment to be identified.

With the scale and uncertainty around the financial challenges facing the Council, it is increasingly important that the Council retain its focus on financial resilience, including ensuring it has sufficient reserves to meet unforeseen costs

86. A key principle of the Council's Revenue Resources Budget Strategy is that consideration be given to the planned, sustainable use of available balances. To address this commitment, the Council's Reserves Policy ensures that available balances are managed and utilised to ensure they are affordable and sustainable.

87. The Local Government Benchmarking Framework includes financial sustainability indicators. The Council's uncommitted earmarked reserves (as a percentage of overall budget) of 3.4% were in line with the Scottish average of 3.5%. These reserves act as a contingency to provide the Council with resilience to meet unforeseen cost pressures. With the scale of the budget gap facing the Council and the ongoing uncertainty in relation to inflationary cost pressures, the Council recognises the importance of continued focus on financial resilience and should continue to ensure these clearly underpin financial planning and monitoring.

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

The Council has a clear ambitious vision as detailed in the Plan for North Lanarkshire which has been driven by effective leadership.

Latest performance monitoring information shows positive trends but challenges remain in a number of areas.

The Best Value Assurance Report on North Lanarkshire Council published in May 2019 made eight recommendations which are now considered complete.

Best Value work in 2022/23

88. For 2022/23 the scope of Best Value work included conclusions on:

- Leadership of the development of new local strategic priorities (2022/23 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years.

89. As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts 3 to 6 of this annual audit report.

90. Annual thematic Best Value work is set by the Accounts Commission. For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The results of this work were reported to elected members at the Audit and Scrutiny Panel in October 2023. This report will be published on the Audit Scotland website in due course.

91. The audit recommendations made in this report, together with the management responses, are included in [Appendix 1](#) of this report.

Leadership of the development of new local strategic priorities

92. For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The key findings in this report are:

- The Council has a clear ambitious vision as detailed in the Plan for North Lanarkshire which has been driven by effective leadership. The Programme of Work is reviewed annually by members and the Strategic Leadership Board. A fundamental review in 2022/23 led to a new refreshed Programme of Work to 2028 which details the Council's priorities in achieving its vision and approved strategies. This new Programme of Work to 2028 was heavily officer led. Although members had opportunity to review proposals and final approval, the Council should look to improve its existing processes for engaging members on the overall strategic planning process.
- Community empowerment and participation is a key priority of the Council. Community boards have an important role in supporting the Council achieve its priorities through the Local Outcome Improvement plans. This is particularly important given the emphasis the Council has on a place-based approach to its vision.
- The Council is clearly committed to reducing inequalities and tackling poverty and is proactive in engaging with a wide range of communities and equalities groups. The Council should now consider how it measures the level of engagement it undertakes with communities and equalities groups.
- Climate change is an area of increasing focus for the Council. There are plans to develop the Climate Plan further by producing a more detailed climate action plan and the Council are developing a planned route map to achieving net zero.
- Sitting alongside the Programme of Work, the Council has a Strategic Policy Framework in place which ensures the Council's strategies, policies and plans remain aligned to its vision and support its shared ambition. This framework details elected member and officer responsibilities for strategic planning and includes details of elected member approval of individual strategies, policies and plans.
- The Council has a well-developed medium-term financial plan which helps ensure resources are aligned to its key priorities as outlined in The Plan for North Lanarkshire and that the projects in the Programme of Work are affordable. The Financial Planning Advisory Group has recently been formed which has cross party membership. This group will play an important role in working with officers to identify options to

address the financial challenges facing the Council and monitor implementation of savings plans.

- The Council has seen a lot of change at the political level since the local elections in 2022. Despite this level of change, there is collaborative working between members and with members and officers. The Council has a number of cross-party working groups and there remains agreement and cross-party support for significant initiatives.

Council service performance improvement

93. The Best Value: Revised Statutory Guidance 2020 sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities.

94. As part of our Best Value thematic work, we considered the latest performance monitoring which shows there has been some positive trends. This includes the local economy continuing to grow and at a faster pace than the position nationally. North Lanarkshire has also seen a significant increase in gross weekly pay which is now higher than the national average for the first time ever.

95. Despite some positive trends, performance monitoring also shows that challenges remain in a number of areas:

- There has been some improvement in the proportion of children in poverty but this remains higher than the national average and there is disparity across North Lanarkshire's communities.
- The proportion of the working age population who are economically active has stalled after some improvements were seen post pandemic.
- Almost 13% of North Lanarkshire's working age population are in a situation that restricts their ability to access employment opportunities.
- There is improvement in educational attainment for all pupils gaining 5+ awards at level 6, as well as pupils living in the 20% most deprived areas but there are no signs of this gap closing.

Follow up of Best Value improvement recommendations from previous years

96. North Lanarkshire Council received a full Best Value Assurance report in May 2019. As part of our annual work programme, we followed up on agreed recommendations from that report.

97. At its meeting in June 2019 the Council agreed the eight recommendations within the Best Value Assurance Report. In 2021/22, the previous auditor reported that two recommendations were not complete:

- 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.
- 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.

98. The performance framework recommendation is now complete. A revised approach to performance reporting has been implemented by the Council.

99. A Performance Reporting Schedule is in place which is subject to an annual review to ensure that the Council's arrangements for performance reporting continue to meet the Statutory Direction and Best Value requirements. The review to develop the 2024 to 2025 performance reporting schedule is underway however it is too early to consider how effective this new reporting is. We will consider this as part of future annual audit wider scope work.

100. The last remaining recommendation from the Best Value Assurance Report is on falling satisfaction levels within social care as detailed above. We have agreed with the Council that this recommendation has now been superseded given the post-covid environment. Therefore, we consider this recommendation closed.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

The Council has effective and appropriate governance arrangements for delivery of its plans.

The Council has plans to develop a route map to achieve net zero.

The Council has seen a lot of change at the political level since the elections in 2022

101. The Local Government elections held in May 2022, and subsequent meeting of the council, led to a change in council leadership from a minority Labour administration to a minority SNP administration. However, following the leader's resignation in July 2022, a new leadership team was elected, resulting in the return of a Labour administration.

102. The Council has seen further change in the composition of elected members since then. Overall, ten members have resigned from the party they were elected into at the May 2022 elections. Eight members have since created a new political group in July 2023, Progressive Change North Lanarkshire.

Governance arrangements are appropriate and operated effectively

103. Members and management of the Council are responsible for ensuring effective governance arrangements are in place, to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded. Effective governance arrangements also enable the council to monitor how effectively it is using its resources.

104. The Council's Strategic Governance Framework approved initially in 2020 and refreshed annually thereafter, acts as the Council's local code of governance. It is aligned to the national *Delivering Good Governance in Local*

Government: Framework and is used to demonstrate the Council's commitment to the principles of good governance.

105. The Council's governance arrangements have been set out in the Annual Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate. This is informed by our regular attendance at the Audit and Scrutiny Panel and review of Council and other committee papers as appropriate.

Climate change arrangements

106. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

107. The Scottish Government has recently published guidance on public sector leadership on the global climate emergency to help public bodies in leading climate action. Addressing the climate emergency and setting actions to achieve net zero will need to be a key element of councils' recovery and renewal from the pandemic.

108. The Climate Change Act 2019 committed Scotland to Net Zero by 2045. The Council declared a climate emergency in 2019. A Climate Plan has been developed and approved which is available on the Council's website. There are plans to develop the Climate Plan further and develop a detailed route map setting out actions necessary to achieve net zero.

109. The Climate Plan and emissions targets are monitored and progress reported through the Council's Environment and Climate Change Committee.

110. The Public Bodies Climate Change Reporting Duties place a legal requirement on public bodies to set target dates for zero direct emissions and indirect emission reductions. They must also report on how spending and resources will contribute to these targets, and report on the body's contribution to Scotland's Climate Change Adaptation Programme.

111. The most recent Public Sector Duties Climate Change report for 2021/22 was presented to the Council's Environment and Climate Change Committee in February 2023. This information is available on the Council's website for public reporting.

112. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The Council has a well-established self-evaluation framework in place which supports continuous improvement.

The Council's significant trading operation did not comply with the statutory requirement to break even.

The Council has a well-established self-evaluation framework in place which supports continuous improvement

113. The Best Value: Revised Statutory Guidance 2020 sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities.

114. A key part of the Council demonstrating improved outcomes for citizens is its well established approach to self-evaluation. The Council has a Strategic Self-Evaluation Framework which is supported by a rolling review programme which is updated annually. The last update was approved by the Audit and Scrutiny Panel in November 2022.

115. Six self-evaluation exercises were undertaken in the last year. Each exercise identified improvement actions which were captured in an improvement plan.

The Council's significant trading operation did not comply with the statutory requirement to break even

116. Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three year period.

117. The creation of a single combined Trading Account was approved in January 2014 to monitor and report the commercial trading activity of the

Council (currently includes Building Cleaning, Waste Management and Town Centre Activities).

118. The Council reported a deficit of £0.1 million over the three year period. This includes a technical accounting adjustment for IAS 19 Employee Benefits. Excluding these costs, the trading operation would have generated a three year surplus of £0.8 million.

119. The adjustments for IAS 19 are made to comply with accounting standards. The pension adjustment values all future pension liabilities for employees at the balance sheet date as if these pension payments were to be made now. This does not reflect the projected pattern of when pensions will be paid. As a trading organisation, the STO results require to be reported including this adjustment. Further details are included at [Exhibit 3](#).

The Council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

120. The Accounts [Commission's 2021 Statutory Performance Direction](#) defines 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.

121. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1).
- own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

122. We have evaluated the Council's arrangements for fulfilling the above requirements and concluded that overall the Council complies with the Direction.

123. The Council have recently undertaken a self-evaluation exercise of the Audit and Scrutiny Panel. The findings of this self-evaluation are due to be reported to the next Audit and Scrutiny Panel in November 2023.

124. The results of the self-evaluation identified a need to ensure elected members are able to fulfil their roles and responsibilities in line with the terms of reference detailed in the Scheme of Administration. The findings highlighted the importance of elected members' scrutiny role. An improvement plan has been agreed to support members.

The Council has recently revised its arrangements for performance reporting

125. A revised approach to performance reporting has been implemented by the Council. The Council now has a Performance Reporting Schedule in place which includes Chief Officer reviews at service committees, corporate reporting, and service specific reporting. It is too early to consider how effective this new reporting is. We will consider this as part of future annual audit wider scope work.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Land and buildings valuations</p> <p>The Council values its land and buildings, with the exception of council dwellings, at 1 April and not the 31 March year end. Given recent significant inflationary pressures on build cost rates there is an increasing risk of a material movement between the date of revaluation and 31 March.</p> <p>Risk – There is a risk that the current value of land and buildings does not reflect current value at 31 March.</p>	<p>The Council should continue to consider its approach to the valuation of land and buildings going forward and continue to ensure this is appropriate to assess whether asset values have moved materially in year and as at 31 March. The Council should work with its valuers to ensure valuations are in accordance with Accounting Code requirements. Appropriate scrutiny of the valuation work completed should be undertaken to ensure these are consistent with the Council's records.</p> <p>See Exhibit 2</p>	<p>The Council will continue to review its revaluation policy in line with code requirements and in conjunction with the professional valuers. This will take cognisance of the recommended actions from the Audit Scotland round table discussion including that 'where the valuation exercise is carried out in-year but earlier than 31 March for reasons of expediency, any material changes in value in the interim should be adjusted for'. The Council will give full consideration to the practicalities of undertaking valuations at 31 March to ensure this will not impact the annual statutory requirement to submit the unaudited accounts by 30 June. The Council will also continue to assess whether there is a material difference between the carrying value in the fixed asset register and current value, and ensure the accounts are code compliant.</p> <p>Responsible officer Elaine Kemp/James McKinstry</p> <p>Agreed date June 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Capital processes</p> <p>We identified a number of issues relating to capital processes. These included assets missing from the revaluation exercise. The process to identify impairments should be more robust to ensure all assets are fully considered. In addition, the way in which assets are held on the fixed asset register should be reviewed to ensure compliance with Code requirements in respect of componentisation.</p> <p>Risk – There is a risk that assets are not held at the correct value in the accounts.</p>	<p>The Council should review a number of its capital processes to ensure the value of assets is correctly held in the accounts, including:</p> <ul style="list-style-type: none"> • The Council should review the revaluations provided by its valuers to ensure all assets have been included. • The Council should review its capital impairment process to ensure it is robust enough to identify potential indicators of impairment across all assets. • The Council should also consider how assets are held on its fixed asset register to ensure compliance with the componentisation requirements of the Code. <p>See Exhibit 2</p>	<p>The Council will:</p> <ul style="list-style-type: none"> • review the revaluation practices to ensure all relevant assets are incorporated • review the process of identifying impairments to ensure all assets are considered • review and consider how assets are held on its fixed asset register to ensure full compliance with the componentisation aspects of the code <p>Responsible officer Elaine Kemp/James McKinstry</p> <p>Agreed date June 2024</p>
<p>3. Significant trading operation</p> <p>Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three year period.</p> <p>The Council's trading operation reported a deficit of £0.1 million over the three year period.</p>	<p>The Council should review the trading operation to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p> <p>See Exhibit 2</p>	<p>As currently presented the Trading Account shows a rolling three year deficit. However, this performance incorporates non-cash adjustments for Employee Benefits. Following the same accounting treatment as Council, these costs would be reversed back out resulting in a cumulative three year surplus being reported, demonstrating continued value for money in the operation of the Council's Trading Account.</p> <p>The Council will seek to amend the presentation of the Trading</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – There is a risk the trading operation does not represent best value for the Council.</p>		<p>Account note for the 2023/24 annual accounts to reflect the cash and non-cash elements of Trading Account operations.</p> <p>Responsible officer Elaine Kemp</p> <p>Agreed date June 2024</p>

2022/23 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Involvement of members in strategic planning</p> <p>Reflecting the roles and responsibilities detailed within the Strategic Policy Framework, reviews of the Programme of Work are officer led. For the new Programme of work to 2028, members had the opportunity to review proposals to ensure alignment with previously approved strategies and also had final approval. However the process was heavily officer led.</p> <p>Risk – There is a risk that the strategic priorities agreed do not reflect local needs.</p>	<p>The Council should look to improve its existing processes for engaging elected members on the overall strategic planning process.</p>	<p>Agree. As part of its scheduled annual review, we will refresh the narrative presently contained within the Strategic Policy Framework in respect of elected members’ strategic planning role and will thereafter emphasise through the CMT and Community Co-ordinator role the importance of engaging elected members on the strategic elements of the integrated Programme of Work Delivery Plan. Elected member role in strategic planning to also be clearly documented in the developing Programme of Work Governance Framework.</p> <p>Responsible Officer Chief Officer (Business and Digital)</p> <p>Timescale 30 September 2024</p>
<p>2. Engagement with communities</p> <p>The Council is proactive in engaging with a wide range of communities but it is</p>	<p>The Council should consider how it measures the level of engagement with communities and equalities groups.</p>	<p>Agree. This will be aligned with actions arising from new communication strategy to be considered by council in March 2024. The strategy will also</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>currently unable to show how successful the range of engagement activity is to demonstrate it is listening to feedback.</p> <p>Risk – There is a risk that the strategic priorities agreed do not reflect local needs.</p>		<p>define what is meant by seldom-heard communities and groups.</p> <p>Responsible Officer</p> <p>Stephen Penman, Chief Officer (Strategic Communications and Engagement)</p> <p>Timescale</p> <p>March 2024</p>
<p>3. Elected members training and development programme</p> <p>The Council refreshed its induction programme in consultation with elected members but it was so poorly attended by members that it was cancelled as a result.</p> <p>Risk – There is a risk that elected members do not have the skills and knowledge required to undertake their role.</p>	<p>The Council should work with members to understand the reasons for the poor attendance to ensure its training and development programme is fit for purpose.</p>	<p>Agree. The number of attendees at development sessions has been low, however there has been a slight increase in numbers attending recent events. The Talent & OD team will continue to communicate regularly with Political Group Business Managers to encourage discussions around training, low attendance, and engagement to be included on business meeting agendas.</p> <p>A survey will be sent to all Elected Members to help identify any restrictions and reasons for low attendance.</p> <p>Development of the Elected Members area on LearnNL will continue, with all development session recordings and presentation slides being uploaded for members to access at any time. A monthly communication is sent to all Elected Members with direct links to new recorded sessions.</p> <p>Responsible Officer</p> <p>Pauline McCafferty and David Watson, Talent and OD Team</p> <p>Timescale</p> <p>November 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Non-current assets</p> <p>The impact of higher inflation on rebuild costs may indicate that the Council's five-year approach to full revaluation may no longer be appropriate, despite the annual desktop exercise carried out to make an assessment of any material change in 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 review its rolling approach to asset revaluation over five years.</p>	<p>In progress</p> <p>Refer to Exhibit 2.</p>
<p>b/f 2. Non-current asset accounting</p> <p>As part of our non-current assets work we identified classification errors between assets under construction and completed assets.</p> <p>Risk – There is a risk that assets will be incorrectly accounted for in the financial statements.</p>	<p>The Council should revise its processes to review classification of assets.</p>	<p>Complete</p> <p>No classification errors were identified as part of our sample testing.</p>
<p>b/f 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/ discounts are reinstated.</p>	<p>Complete</p> <p>Second officer checks have been brought up to date and had been actioned effective from April 2022.</p> <p>For 2023/24 the second officer checks have been carried out monthly since May 2023.</p>
<p>b/f 4. User access</p> <p>Each financial system has controls in place for staff to gain</p>		<p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>appropriate access. There are also processes in place to monitor user access through annual or bi-annual reviews. For each of the financial systems reviewed, with the exception of e-Financials, these reviews did not take place in 2020/21. However, Internal Audit's review of general ledger controls found the documentation for the e-Financials review to be incomplete and an exercise is underway to follow up on any documentation outstanding. We also note that for the iTrent system there was a review of dormant users during the year.</p> <p>Risk – There is a risk that individuals may have inappropriate access to systems.</p>		<p>No issues have been identified in user access as part of our controls work.</p> <p>It was deemed that each staff member had appropriate access and processes were in place to monitor access.</p>

Appendix 2A. Summary of corrected misstatements

We report all corrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises corrected misstatements that were noted during our audit testing.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
Accounting Misstatements					
1. Covid-19 PPE adjustment not required in 2022/23	Income	1,333			
	Expenditure		1,333		
2. HRA adjustment	Income	10,248			
	Expenditure		10,248		
3. VAT error	CG debtors			1,412	
	Trade creditors				655
	Trade debtors				857
4. Depreciation adjustment due to incorrect useful lives from valuer	Expenditure		15,284		
	Land and buildings			15,284	
Account Disclosure Issues					
1. Intangibles classification – adjustment of £298,000 between transfers and additions					

Appendix 2B. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
Accounting Misstatements					
1. Capital accrual not recorded in error	Expenditure	1,955			
	Payables				1,955
2. Landfill provision overstated	Provisions			347	
	Expenditure		347		
3. Creditor refund error	Expenditure		338		
	Payables			338	
4. Errors in valuer's workings	Non-current assets			2,100	
	General Fund				2,100
5. Group adjustment – North Lanarkshire Properties	Investment property			5,762	
	Gross profit		5,762		

6. Group adjustment – Strathclyde Partnership for Transport	Operating expenditure	792	
	PPE		792

North Lanarkshire Council

2022/23 Annual Audit Report

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