

# South Lanarkshire Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for South Lanarkshire Council

February 2018

## 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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# Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of South Lanarkshire Council for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our Annual Audit Report to members and the Controller of Audit.

## Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for South Lanarkshire Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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.</p>	<p>In view of the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>Vast majority of income received via electronic payments.</li> <li>Robust controls over receipt of other income.</li> </ul>	<ul style="list-style-type: none"> <li>Walk through of controls over income systems.</li> <li>Analytical procedures on income streams.</li> <li>Sample testing of revenue transactions.</li> </ul>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Council incurs significant expenditure in areas such as welfare benefits, grant payments and procurement expenditure, which present a risk of fraud over expenditure.</p>	<ul style="list-style-type: none"> <li>• Involvement in National Fraud Initiative.</li> <li>• Robust controls over expenditure streams.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit work on the National Fraud Initiative matches.</li> <li>• Audit of grants.</li> <li>• Analytical procedures on expenditure streams.</li> <li>• Sample testing of expenditure and housing benefit transactions.</li> </ul>
<p><b>4 Estimation uncertainty in property valuations</b></p> <p>The Council owns property valued at £1.476 billion on its balance sheet as at 31 March 2017. Property valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> <li>• Valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors.</li> <li>• Robust controls over process for updating asset register for in-year valuations.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the valuer.</li> <li>• Focused substantive testing of classification and valuation of assets.</li> </ul>
<p><b>5 Estimation uncertainty in pension valuations</b></p> <p>The Council had a pension liability of £711 million, as at 31 March 2017. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on external variables. Actuarial valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> <li>• Valuation completed by qualified actuary.</li> <li>• Applicability of actuarial assumptions reviewed by officers.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the actuary.</li> <li>• Review appropriateness of actuarial assumptions.</li> <li>• Confirm pension valuations in actuarial report are correctly reflected within the 2017/18 accounts.</li> </ul>
<p><b>6 Approval of write-offs</b></p> <p>During the 2016/17 audit we identified that a number of debts had been written off prior to being approved by the appropriate committee. There is a risk that similar issues are encountered during 2017/18.</p>	<ul style="list-style-type: none"> <li>• Management have advised that procedures have been tightened up to ensure that in future all debt write offs will be approved at committee before submission of the unaudited accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Review debts written-off for accounts against committee approval.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>7 Financial sustainability</b></p> <p>The council continues to face significant financial pressures from reductions in Scottish Government funding and increasing unavoidable costs. There is a risk that the council is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> <li>• The council has appropriate mechanisms in place to ensure a balanced budget is proposed which includes consultation and challenge, and routine budget monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports and the financial position.</li> <li>• Review spending outturns against budget.</li> <li>• Review planned use and reliance on unallocated reserves.</li> <li>• Review long-term financial strategy.</li> </ul>

Audit Risk	Source of assurance	Planned audit work
<p><b>8 Status of Risk and Audit Scrutiny Forum</b></p> <p>The current terms of reference of the Council's RASF are limited.</p> <p>We have previously expressed the view that this dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance. Management agreed to review the arrangements in place with reference to best practice.</p>	<ul style="list-style-type: none"> <li>Management have reviewed the current arrangements against the CIPFA guidance: <i>Audit Committees: Practical Guidance for Local Authorities and Police</i> and are developing proposals for alternative structures for consideration by the Council.</li> </ul>	<ul style="list-style-type: none"> <li>We will consider any changes to the Council's committee structure against best practice guidance.</li> </ul>
<p><b>9 Cyber security</b></p> <p>Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by a recent "WannaCry" ransomware attack on the NHS. There is a risk that the council is not fully aware of vulnerabilities in its ICT systems and may be at risk of unauthorised access and subsequent damage and interruption to its IT services.</p>	<ul style="list-style-type: none"> <li>There is an awareness of the need for effective cyber security at all levels of the Council and cyber security is included in the Council's risk register. There is an ongoing programme of work to maintain effective cyber security through monitoring, assessment and mitigation of vulnerabilities on all Council IT systems. This is supported by user training and awareness. South Lanarkshire Council's current cyber security assurance is based on compliance with the UK Cabinet Office's Public Service Network (PSN) Information Assurance Conditions and the Council has provisionally committed to fully implementing the Scottish Government's Cyber Resilience Public Sector Action Plan by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation.</li> </ul>	<ul style="list-style-type: none"> <li>Assess Council's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.</li> </ul>
<p><b>10 PSN compliance</b></p> <p>The council currently does not have a valid Public Sector Network (PSN) certificate. There is a risk that continued non-compliance with PSN could lead to financial and reputational losses for the council.</p>	<ul style="list-style-type: none"> <li>An action plan has been implemented to address concerns and a new application will be submitted once this is completed.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress against the PSN accreditation action plan.</li> </ul>

## Audit of charities administered by South Lanarkshire Council

4. Members of South Lanarkshire Council are sole trustees for three registered Scottish charities, with combined assets of some £1.2 million.
5. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Consequently, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.
6. Based on our discussions with staff and initial planning work undertaken we have identified the audit risks set out in [exhibit 2](#).

### Exhibit 2

Audit Risk	Management assurance	Planned audit work
<p><b>1 Governing documentation</b></p> <p>During 2016/17 we reported that the Council did not have adequate arrangements in place to enable trustees to demonstrate they are exercising their duties appropriately.</p>	<ul style="list-style-type: none"> <li>A proposal for revised governance arrangements on charities has been prepared and will be submitted to the Finance and Corporate Resources Committee for approval during 2018.</li> <li>Revised governance arrangements, and training for trustees, will be implemented following committee approval.</li> </ul>	<ul style="list-style-type: none"> <li>Liaise with finance and legal to ascertain progress with revised governance arrangements.</li> <li>Review new governance arrangements put in place and assess the appropriateness of training provided to trustees.</li> </ul>

### Reporting arrangements

7. This Annual Audit Plan, the outputs set out in [exhibit 3](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.
9. We will provide an independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide members and the Controller of Audit with an Annual Audit Report, containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 3

### 2017/18 Audit outputs

Audit Output	Target date	Risk and Audit Scrutiny Forum / Executive Committee Date
Interim management report	31 May 2018	13 June 2018
Annual Audit Report	11 September 2018	18 September 2018 / 26 September 2018*
Independent Auditor's Report	26 September 2018**	26 September 2018

\* Our Annual Audit Report will be taken to both the Risk and Audit Scrutiny Forum and the Executive Committee as the Executive Committee are considered those charged with governance as defined by international standard on auditing 260.

\*\* The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the executive committee.

## Audit fee

**10.** The agreed audit fee for the 2017/18 audit of South Lanarkshire Council is £481,670 (£490,490 in 2016/17). In determining the audit fee we have taken account of the risk exposure of the Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 29 June 2018.

**11.** We have also agreed an audit fee for the audit of the three registered charities of £5,425 (£3,996 in 2016/17).

**12.** The combined fee represents a reduction (£7,391) over that charged in 2016/17.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Executive Committee and Chief Executive

**14.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**15.** The audit of the financial statements does not relieve management or the Executive Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**16.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**17.** Auditors in the public sector give an independent opinion on the annual accounts. We aim to support improvement and accountability by reviewing and reporting on arrangements to management performance and use of resources.

# Audit scope and timing

## Financial statements

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

- understanding the business of South Lanarkshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how South Lanarkshire Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on:

- Whether the financial statements give a true and fair view of the state of affairs of the Council and its group and the income and expenditure for the year
- Whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**20.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [Exhibit 4](#).

## Exhibit 4

### Materiality levels

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 (based on the most recent audited accounts).	£10.4 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£5.2 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 1% of planning materiality.	£0.1 million

21. We set separate materiality levels for the audits of the charities accounts, as detailed below.

## Exhibit 5

### Trust materiality levels

Trust	Planning materiality*	Performance materiality	Reporting threshold**
South Lanarkshire Council Charitable Trusts	£9,000	£8,500	£100
South Lanarkshire Council Educational Trusts	£1,400	£1,300	£100
East Kilbride Technology Centre Trust	£300	£250	£100

\* Based on the latest audited accounts and set at 1% total funds for the year ended 31 March 2017, rounded up as considered appropriate.

\*\* In view of the amounts involved, we have set the reporting threshold at £100.

22. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We consider whether the supporting information is consistent with the financial statements and our wider knowledge of the Council and its environment and provide comment and recommendations as appropriate.

## Timetable

23. An agreed timetable is included at [exhibit 6](#) which takes account of submission requirements and planned Risk and Audit Scrutiny Forum / Executive Committee meeting dates:

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## Exhibit 6

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	27 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with officers	10 September 2018
Agreement of unsigned financial statements; Issue of annual audit report	11 September 2018
Independent auditor's report signed	26 September 2018*
Latest date for signing of whole of government accounts return	28 September 2018

\* The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the executive committee.

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## Internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

25. South Lanarkshire Council's internal audit function is provided by their internal audit section led by the Audit and Compliance Manager. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

## Areas of Internal Audit reliance

26. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Procurement
- Payables

- Internal controls (Direct Awards) (1)
- E-invoicing

**27.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- IT audit
- Community Empowerment Area
- Anti-fraud review
- Overtime, travel and subsistence
- NFI
- City Deal

## Audit dimensions

**28.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 7](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

### Exhibit 7 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**29.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on the Council's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the

potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.

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

### Financial management

**30.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

### Governance and transparency

**31.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information. We will assess:

- whether governance arrangements are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency of decision-making (including for services delivered by (or in partnership with) other bodies such as the integration joint board)
- the quality and timeliness of financial/performance reporting
- the Council's cyber security arrangements.

### Value for money

**32.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Council can provide evidence that it is delivering value for money in its use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

### Impact reports

**33.** As part of our 2017/18 audit activity we will be carrying out some limited work to assess the local impact of recent national audit reports including:

- Changing models of health and social care (published March 2016)
- Roads maintenance follow-up (published August 2016)
- Social work in Scotland (published September 2016)

### Best Value

**34.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016.

**35.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both

through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission setting out findings from across all 32 Scottish councils
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

**36.** The six councils on which a BVAR will be published during the second year of the new approach are listed at [exhibit 8](#). Reports will be considered by the Accounts Commission between April 2018 and November 2018.

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## Exhibit 8

### 2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

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**37.** The work planned in South Lanarkshire Council this year will focus on the Council's arrangements for demonstrating Best Value in delivering performance outcomes and continuous improvement. The work will be integrated into the audit approach and will be reported in the Annual Audit Report.

### Independence and objectivity

**38.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**39.** The engagement lead for South Lanarkshire Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of South Lanarkshire Council or the charities.

## Quality control

**40.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**41.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

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

## Adding Value

**43.** Through our audit work we aim to add value to the Council. We will do this by providing a summary of our audit activity in an Annual Audit Report. We will provide clear judgements and conclusions on how well the Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where appropriate we will recommend actions that support continuous improvement and highlight any areas of good practice identified from our audit work.

# South Lanarkshire Council

## Annual Audit Plan 2017/18

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