

# South Lanarkshire Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for South Lanarkshire Council

March 2019

## Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

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

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# 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 2018/19. 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. We seek to add value to the council by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the council promote improved standards, better management and decision-making, and more effective use of resources.
3. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the annual accounts 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

4. 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 2018/19 Key audit risks

 Audit Risk	Source of management assurance	Planned audit work
<b>Financial statements 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>	<ul style="list-style-type: none"> <li>• In view of the nature of this risk, assurances from management are not appropriate.</li> </ul>	<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>• Most income is received via electronic payment.</li> <li>• Robust controls over the 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>

 <b>Audit Risk</b>	<b>Source of management assurance</b>	<b>Planned audit work</b>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, grant payments and procurement 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> <li>• Emphasis on fraud awareness in expenditure streams</li> <li>• Review of system controls and focus on standing data</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 and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of some material account areas which represents an increased risk of material misstatement in the financial statements.</p> <ul style="list-style-type: none"> <li>• Valuations on non-current assets rely on expert valuations and management assumptions.</li> <li>• The value of the council's pension liability is an estimate based on information provided by management and actuarial assumptions.</li> <li>• The council's provision for doubtful debts is based on management assessments of the recoverability of debts.</li> </ul>	<ul style="list-style-type: none"> <li>• Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors.</li> <li>• Pension Fund valuation completed by a qualified actuary with the applicability of actuarial assumptions used reviewed by Council officers.</li> <li>• Provision for doubtful debts based on aged-debt approach, incorporating prior year experience</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the valuer and actuary.</li> <li>• Focused substantive testing of classification and valuation of assets.</li> <li>• Review appropriateness of actuarial assumptions.</li> <li>• Confirm pension valuations in actuarial report are correctly reflected within the 2018/19 accounts.</li> <li>• Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience.</li> </ul>
<p><b>5 Non-current asset accounting</b></p> <p>Our 2017/18 audit identified that a number of capital expenditure programmes had been added to the asset register as a single asset record. The grouping of these assets makes it difficult to account for the impact of future events on the value (disposal, replacement or impairment) of individual assets or constituent parts of an individual asset.</p> <p>There is a risk that the value of grouped expenditure is incorrectly accounted for in the financial statements.</p>	<ul style="list-style-type: none"> <li>• A review of the prior year capital expenditure programmes has identified no significant components that should have been added separately.</li> <li>• A similar review of the 2018/19 capital expenditure programmes will be carried out prior to closure of the 2018/19 Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Focused substantive testing on non-current asset balances.</li> <li>• Review of the valuation process when an asset is disposed, replaced or impaired.</li> </ul>

 <b>Audit Risk</b>	<b>Source of management assurance</b>	<b>Planned audit work</b>
<p><b>6 Holiday pay accrual</b></p> <p>Our 2017/18 audit identified a number of anomalies in the data used to calculate the holiday pay accrual.</p> <p>There is a risk that the holiday pay accrual is mis-stated in the financial statements.</p>	<ul style="list-style-type: none"> <li>A new report has been written which will identify any anomalies in the system. These can then be corrected/removed as appropriate, leaving a clean sample.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the 2018/19 holiday pay accrual during the financial statements audit.</li> </ul>
<b>Wider dimension issues and risks</b>		
<p><b>7 EU withdrawal</b></p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal.</p> <p>There is a risk that the services delivered by the council could be adversely affected by EU withdrawal.</p>	<ul style="list-style-type: none"> <li>Consideration given to Audit Scotland Questionnaire 'Withdrawal from EU, key issues for the Scottish Public Sector'</li> <li>Participation with the Multi Agency Regional Resilience Partnership (West Region) and Local Resilience Partnership</li> <li>Contingency plans prepared for key risk areas</li> <li>Key risk areas and controls identified on the Council's Strategic and Resource Risk Registers</li> <li>Support arrangements in place for businesses within South Lanarkshire</li> </ul>	<ul style="list-style-type: none"> <li>We will use guidance produced by Audit Scotland and review the discussions and outputs of the Council to assess the extent of issues and preparations for EU withdrawal.</li> <li>Consider how the council responds to any emerging issues after March 2019.</li> </ul>
<p><b>8 Openness and transparency</b></p> <p>The council's Privacy Policy, Information Compliance Policy and Data Protection Access Request Form make reference to outdated obligations in the now superseded Data Protection Act 1998.</p> <p>There is a risk that the failure to update key policies to reflect current legislation reduces transparency to the public, while inaccurate guidance for employees could lead to non-compliance with GDPR obligations.</p>	<ul style="list-style-type: none"> <li>The Council's Privacy Policy has been updated and renamed Data Protection Policy</li> <li>Information Compliance Policy and Data Protection Accession Request Form have been updated.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the updated policies when they become available.</li> </ul>

## Best Value


**5.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in a five-year period. During 2018/19 a Best Value review of the council was completed. The report will be published on 29 March 2019.

**6.** This work will also contribute to our conclusions on the audit dimensions and we will follow up on recommendations made as part of the Best Value review in our annual audit report.

**7.** Councils on which a BVAR will be published during the third year of the new approach are listed at [exhibit 2](#).

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## Exhibit 2 2018/19 Best Value Assurance Reports

	South Lanarkshire Council	Highland Council
	Stirling Council	Scottish Borders Council
	North Lanarkshire Council	Perth and Kinross Council
	Midlothian Council	

Source: Audit Scotland

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## The audit of charities administered by South Lanarkshire Council

**8.** 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. 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. 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.

**9.** Members of South Lanarkshire Council are sole trustees for three registered Scottish charities, with combined assets of some £1.2 million. Based on our discussions with staff and initial planning work undertaken, we have identified the audit risk set out at [exhibit 3](#).

## Exhibit 3

Audit Risk	Source of management assurance	Planned audit work
<p><b>1 Governance documentation</b></p> <p>Following our recommendations in previous years, the council has prepared and approved new arrangements for the administration of the three charitable trusts under its control. The new arrangements cannot be formally implemented until approval from the Office of the Scottish Charity Regulator (OSCR). There is a risk that the current arrangements do not permit distribution of funds and that governance arrangements are weak.</p>	<ul style="list-style-type: none"> <li>Discussions with OSCR are ongoing but approval can take between 4-6 months.</li> <li>Planning around Training for Trustees and administration is underway</li> </ul>	<ul style="list-style-type: none"> <li>Liaise with officers during process of updating and replacing trust deeds.</li> <li>Review the updated documentation when available.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**10.** This annual audit plan, the outputs set out at [exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**11.** 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.

**12.** We will provide an independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission setting out our opinions on the annual accounts. 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 audit.

## Exhibit 4 2018/19 Audit outputs

Audit Output	Target date	Risk and Audit Scrutiny Committee Date
Interim management report	24 May	19 June
Annual audit report	4 September	18 September
Independent auditor's report	18 September*	18 September

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



## Audit fee

**13.** The agreed fee for the 2018/19 audit of South Lanarkshire Council is £490,110 (£481,670 in 2017/18). 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 28 June 2019.

**14.** We have also agreed an audit fee for the audit of the three registered charities of £5,425 (£5,425 in 2017/18).

**15.** 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

### Risk and Audit Scrutiny Committee and Executive Director of Finance and Corporate Resources (section 95 officer)

**16.** 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.

The audit of the financial statements does not relieve management or the Risk and Audit Scrutiny Committee of their responsibilities.

### Appointed auditor

**17.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the Financial Reporting Council's Ethical Standard.

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 manage 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
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include them 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 opinions on whether:

- the financial statements give a true and fair view of the state of affairs of the council and the income and expenditure for the year
- 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 2018/19
- 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.

## Other information in the financial statements

**20.** We also review and report on the management commentary, remuneration report and governance statement. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

## Materiality

**21.** We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. 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 5](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 5

### Materiality levels

Materiality	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 2018.	£11.583 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 45% of planning materiality.	£5.212 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 (rounded up)	£0.100 million

Source: Audit Scotland

22. We set separate materiality levels for the audits of the charities accounts, [exhibit 6](#).

## Exhibit 6

### Trust materiality levels



Trust	Planning materiality*	Performance materiality	Reporting threshold**
<b>South Lanarkshire Council Charitable Trusts</b>	£11,000	£8,000	£100
<b>South Lanarkshire Council Educational Trusts</b>	£1,500	£1,100	£100
<b>East Kilbride Technology Centre Trust</b>	£300	£200	£100

\* Based on the latest audited accounts and set at 1% total funds for the year ended 31 March 2018, rounded up as considered appropriate. \*\* In view of the amounts involved, we have set the reporting threshold at £100.

## Timetable

**23.** An agreed timetable is included at [exhibit 7](#) which takes account of submission requirements and planned Risk and Audit Scrutiny Committee meeting dates:

### Exhibit 7 Financial Statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	19 June
Latest submission date of unaudited financial statements and working papers package	28 June
Latest date for final clearance meeting with officers	3 September
Agreement of unsigned financial statements Issue of annual audit report/ISA 260	4 September
Independent auditor's reports signed	18 September
Latest date for signing of whole of government accounts return	28 September

\* ISA 260 issues arising from the audit of charitable trusts will be reported in a separate section of the council's annual audit report, however, a separate independent auditor's report will be issued for each of the three charitable trusts..

## 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).

### Using the work of internal audit

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

- Procurement

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

- Budgetary control
- Information risk management
- NFI
- City deal benefit realisation

## Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 8](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

### Exhibit 8 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

28. 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 2018/19:

- 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

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review and report on:

- 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 internal control and the prevention and detection of fraud and corruption have been established.
- the arrangements in place to receive assurances that systems of internal control are operating effectively

## Governance and transparency

**30.** 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 there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.
- whether governance arrangements are appropriate and operating effectively.
- the quality and timeliness of financial/performance reporting

## Value for money

**31.** Value for money refers to using resources effectively and continually improving services. Our Best Value Assurance Report will provide our conclusions on how effectively the council demonstrates value for money in the use of resources, it's focus on improvement and the link to the outcomes delivered.

## Contribution to national performance audits

**32.** The list below sets out the performance audit reports that Audit Scotland intends to publish during 2018/19 and 2019/20 that require local auditor input:

- Innovative financing: city deals (to be published Autumn 2019)
- Digital progress in local government (to be published Spring 2020)
- Education outcomes (to be published Winter 2019)

**33.** As part of our 2018/19 audit activity we will be carrying out some limited work to assess the local impact of recent national audit reports including:

- Early learning and childcare (published February 2018)
- Equal pay in Scottish councils (published September 2017)
- Self-directed support: 2017 progress report (published August 2017)

## Housing benefit performance audit

**34.** The Accounts Commission has responsibility for the audit of housing benefit services in Scotland and Audit Scotland carries out a programme of performance audit work on its behalf each year. The structural changes to the social security landscape, both at UK and Scottish level, are present significant challenges for councils. In this context the Commission is considering a more strategic approach to the housing benefit performance audit from 2019/20. This would change the balance between reports on the risks at individual councils to more cross-cutting thematic reviews that look at risks across councils.

**35.** We will continue to review the relative performance of all councils' housing benefit services throughout the year and will take a risk based and proportionate approach to changes in performance at individual councils. Currently there are no plans for audit work at South Lanarkshire Council. Once finalised, the change in approach will be fully communicated to councils along with planned reviews and timescales.

## Independence and objectivity

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

**37.** 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 charitable trusts.

## Quality control

**38.** International Standard on Quality Control (UK and Ireland) 1 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.

**39.** 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.

**40.** 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.

# South Lanarkshire Council

## Annual Audit Plan 2018/19

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