

South Lanarkshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for South Lanarkshire Council

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of South Lanarkshire Council (the council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and provision of an Independent Auditor's Report
- an audit opinion on the other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of the arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts return
- review of the council's arrangements for preparing and publishing statutory performance information
- review of the council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and

decision making and more effective use of resources. Additionally, we attend meetings of the Risk and Audit Scrutiny Committee and actively participate in discussions.

Respective responsibilities of the auditor, the council and Executive Director of Finance and Corporate Resources

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the council to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Risk and Audit Scrutiny Committee and Executive Director of Finance and Corporate Resources responsibilities

8. Audited bodies are responsible 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 deliver their objectives. At the council, the Executive Director of Finance and Corporate Resources is the proper officer, with responsibility for the administration financial affairs (section 95 officer).

9. The council has delegated responsibility for the oversight of internal and external audit to its Risk and Audit Scrutiny Committee.

Communication of fraud or suspected fraud

10. In line with the auditing standards, in presenting this plan to the Risk and Audit Scrutiny Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee or council have any such knowledge or concerns relating to the risk of fraud within the council, we invite them to communicate this to the appointed auditor for consideration.

Managing the transition to 2022/23 audits

11. Audit appointments are usually for five years but were extended to six years due to Covid-19. The 2021/22 audit year is the final year of the current appointment, and we will work closely with our successors to ensure a well-managed transition.

Annual accounts audit planning

Audit of the annual accounts

12. Our approach to the audit of the 2021/22 annual accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual accounts give a true and fair view of the council's finances for the year ended 31 March 2022, and have been properly prepared in accordance with International Financial Reporting Standards and the applicable financial reporting framework.

Materiality

13. Materiality is an expression of the relative significance of a matter in the context of the annual accounts. We are required to plan our audit to determine with reasonable confidence whether the annual accounts are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality values for the 2021/22 audit

14. Materiality values for the council, and its group, are set out in [exhibit 1](#).

Exhibit 1

2021/22 materiality values for the council

Materiality values	Council	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited annual accounts for 2020/21.	£13.420 million	£13.540 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£6.710 million	£6.770 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.135 million	£0.135 million

Source: Audit Scotland

Significant risks of material misstatement to the annual accounts

15. Our risk assessment draws on our cumulative knowledge of the council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the annual accounts. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 significant risks of material misstatement to the annual accounts

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>2. Significant estimation and judgment: other land and buildings revaluations</p> <p>The council held other land and buildings, including its council dwellings, with a net book value of more than £3.0 billion as at 31 March 2021.</p> <p>Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>Risk: Valuations of these assets are materially misstated.</p>	<ul style="list-style-type: none"> • Revaluations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. • Revaluations carried out for all assets as part of rolling revaluation programme. • Detailed working papers retained to support asset reviews and impairments. • An annual impairment review is undertaken by the registered valuer and reviewed by management • Regular Asset Valuation Working Group meetings with representatives from Finance and Property Services. 	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically evaluate the approach the council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Test the reconciliation between the financial ledger and the asset register. • Critically assess the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of other land and buildings and council dwellings.

Source: Audit Scotland

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the annual accounts. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

18. The areas of specific audit focus are:

- **Pension liability:** This an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.
- **Accounting for non-current assets:** Over several years we have identified a number of errors in the accounting for non-current assets. While the errors identified were corrected in the accounts, there remains a risk that similar issues are identified this year. In response to our audit findings, an Asset Valuation Working Group has been established. It includes members of staff from Finance Strategy and Property Services which should improve communications and reduce the likelihood of errors in the asset figures. We will report on the findings of our audit work on the council's non-current assets in our Annual Audit Report.

Consideration of the risks of fraud in the recognition of income and expenditure

19. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the annual accounts. We have rebutted this presumed risk in 2021/22 because, while the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of the council's income streams, namely government grants.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net expenditure bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have considered each of the council's expenditure streams in turn, and based on our knowledge of the council, prior year considerations and our risk assessment to date, we do not consider these to be susceptible to material misstatement due to fraud. We have therefore rebutted the risk of material misstatement due to fraud in expenditure recognition for 2021/22.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Group consideration

22. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

23. The council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors. Based on our discussion with management and assessment of the group, the only

significant group component is the council, which accounts for 99% of consolidated gross expenditure and 96% of the group's net assets. We will discuss with management their updated assessment in respect of other entities where the council has a relationship, but at this stage, it has been assessed that there are no other significant components. All non-significant components will be covered by an analytical review at the group level.

Audit of the Management Commentary, Annual Governance Statement and Remuneration Report

24. In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, Annual Governance Statement, and the audited part of the Remuneration Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

25. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- **Management Commentary:** Consideration of performance information reported to council committee's and published during the year.
- **Annual Governance Statement:** Reviewing the Local Code of Corporate Governance, considering the annual assurance statements completed, and prepared by Executive Directors to provide assurances to the Chief Executive, and Internal Audit's Annual Assurance Report.
- **Remuneration Report:** Obtaining and reviewing payroll data and HR reports.

26. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report.

Audit of the trusts registered as Scottish charities

27. The preparation and audit of the annual accounts 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.

28. Members and officers of South Lanarkshire Council are trustees for three registered Scottish charities, with combined assets of some £1.154 million.

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 were approved by the Office of the Scottish Charity Regulator (OSCR) in December 2019. In 2021/22, the council began the process of transferring the assets to the new charities. These transfers are ongoing and will be subject to the approval of the charity's regulator, OSCR.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

29. Materiality levels for the various trusts are set out in [exhibit 3](#).

Exhibit 3

2021/22 materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
South Lanarkshire Council Charitable Trusts	£24,000 (Based on 2% of audited 2020/21 net assets)	£18,000 (Based on 75% of planning materiality)	£1,200
South Lanarkshire Council Educational Trusts	£2,550 (Based on 2% of audited 2020/21 net assets)	£1,900 (Based on 75% of planning materiality)	£100
East Kilbride Technology Centre Trust	£535 (Based on 2% of audited 2020/21 net assets)	£400 (Based on 75% of planning materiality)	£100

Source: Audit Scotland

Significant risk of material misstatement to the annual accounts of the trusts

30. Based on our risk assessment process, we identified the following significant risks of material misstatement to the annual accounts of the trusts:

- **Risk of management override of controls:** Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls. In response to this risk, we will review accounting estimates, judgments and decisions made by management and evaluate any significant transactions that are outside the normal course of the trust business.

Audit risk assessment process

31. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

32. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

33. The four dimensions that frame our audit work are shown in [exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

34. In summary, the four dimensions cover the following:

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

- **Financial sustainability:** As auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Governance and transparency:** 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.
- **Value for money:** Value for money refers to using resources effectively and continually improving services.

Best Value

35. The 2021/22 audit year is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is being assessed comprehensively over the period of the audit appointment. Conclusions and judgements on Best Value are being reported through the Annual Audit Reports for each council.

36. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once over the period of the audit appointment.

37. The [South Lanarkshire Council BVAR](#) was published in March 2019. Our work in 2021/22 will focus on following-up on the findings reported in the BVAR to assess the council's progress with the recommendations raised in the report. Our findings will be reported through our Annual Audit Report.

38. BVARs will be considered by the Accounts Commission between February and September 2022 on the following councils:

- Comhairle Nan Eilean Siar
- Shetland Islands
- Angus
- Moray - follow-up

Audit dimension risks

39. We have identified audit risks in the areas set out in [exhibit 5](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 5

2021/22 audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>As is the position across Scotland, the council continues to operate in an increasingly complex and challenging environment, where core national funding is reducing, relative to rising demand for services.</p> <p>A wide range of financial uncertainties has been further complicated due to the ongoing pandemic and the council faces significant challenges to remain financially resilient and deliver services sustainably.</p> <p>The council has identified a savings requirement of £86.591 million between 2023/24 - 2026/27.</p> <p>Risk: The financial pressures impact on the sustainability and quality of council services in the future.</p>	<ul style="list-style-type: none"> • The council has set a balanced budget for 2022/23. • The council's medium-term strategy will continue to be updated to take account of any new information affecting the council's finances. • Funding is held in the council's balance sheet to contribute towards the ongoing costs of Covid-19. 	<ul style="list-style-type: none"> • Monitor how the council's budget is affected in 2022/23 and the impact on medium/longer term financial planning. • Report the 2021/22 outturn in our Annual Audit Report • Monitor the council's performance reports to establish the impact of any financial, and ongoing Covid-19, pressures on services.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

40. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

41. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

42. We will provide an Independent Auditor's Report to the council and Accounts Commission setting out our opinions on the annual accounts. We will provide the council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

43. [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the Independent Auditor's Report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. Due to the May 2022 Local Government elections, the committee dates from June 2022 onwards are yet to be finalised. However, our audit work has been scheduled to ensure the planned statutory deadline is met.

Exhibit 6

2021/22 audit outputs

Audit Output	Audit Scotland target date	Risk and Audit Scrutiny Committee Date
Annual Audit Plan	31 March 2022	Date TBC
Independent Auditor's Report	31 October 2022	Date TBC
Annual Audit Report	31 October 2022	Date TBC

Source: Audit Scotland

Timetable

44. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [exhibit 7](#) that has been discussed with management.

45. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

46. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 7

Proposed annual accounts timetable

Key stage	Provisional date
Consideration of the unaudited annual accounts by those charged with governance.	Date TBC
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	By 30 June 2022
Latest date for final clearance meeting with management.	Date TBC
Agreement of audited and unsigned annual accounts.	Date TBC
Issue of proposed Annual Audit Report to those charged with governance.	Date TBC
Signed Independent Auditor's Report (council and three charities). Issue of final Annual Audit Report.	By 31 October 2022
Latest date for Whole of Government Accounts assurance.	Date TBC

Source: Audit Scotland

Audit fee

47. The agreed audit fee for the 2021/22 audit of the council is £521,060 (2020/21: £511,150). 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.

48. We have also agreed an audit fee for the audit of the three registered charities of £5,425 (2020/21 fee £5,425).

49. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

50. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures.
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort.
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

51. The council's internal audit function is provided by its 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).

52. We will not be placing formal reliance on internal audit's work to support our financial statements audit opinion this year. However, we do plan to use the work of internal audit where relevant in respect of our audit dimension responsibilities.

Independence and objectivity

53. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the annual accounts, 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.

54. The engagement lead (i.e., appointed auditor) for the council is Fiona Mitchell-Knight, Audit Director. Andrew Kerr, Senior Audit Manager is the engagement lead for the charitable trusts. 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 audits of the council or charitable trusts.

Quality control

55. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

56. 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](#) (and supporting guidance) 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 quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

57. 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

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