

# North Lanarkshire Council

## 2021/22 Annual Audit Report



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

October 2022

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# Key messages

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## 2021/22 annual accounts

- 1 Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.
- 2 The audited financial statements include changes to the accounting treatment of Culture and Leisure North Lanarkshire (CLNL) following the transfer of services back to the council on 1 April 2021.
- 3 The audited Remuneration Report now reflects minor changes after we examined the supporting evidence for loss of office payments.

## Financial management and sustainability

- 4 The council reported a provisional underspend against budget of £28 million. The General Fund (including HRA) increased by £55 million as a result of underspends.
- 5 The Covid-19 pandemic resulted in 2021/22 costs of £68 million, which were mostly funded by Scottish Government Covid-19 funding and council reserves.
- 6 The council has a well-developed medium-term financial plan. The council's projections to 2027/28 forecast a cumulative funding gap of £109 million.

## Governance and transparency

- 7 Governance arrangements operating throughout 2021/22 were appropriate and operated effectively.

## Best Value

- 8 Good progress has been made in addressing previous Best Value Assurance Report findings.

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# Introduction

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1. This report summarises the findings arising from the 2021/22 audit of North Lanarkshire Council (the council) and its group.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the September 2022 meeting of the Audit and Scrutiny Panel.
3. This report comprises the findings from:
  - an audit of the annual accounts
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
4. The main elements of our audit work in 2021/22 have been:
  - an audit of the annual accounts of the council and its group, including the statement of accounts of the two section 106 charities administered by the council, and the issue of independent auditor's reports setting out our opinions
  - a review of the council's key financial systems
  - audit work on the council's progress in implementing recommendations reported in our Best Value Assurance Report published in May 2019
  - consideration of the four audit dimensions.
5. The global coronavirus pandemic continued to impact on North Lanarkshire Council during 2021/22. This has had implications for the services it delivers and its ability to achieve strategic priorities. We considered the risks related to the pandemic as part of our audit planning and did not consider there to be any significant audit risks for 2021/22.

## Adding value through the audit

6. We add value to the council through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

**7.** The 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.

**8.** 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.

**9.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

**10.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

**11.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

**12.** This report raises matters from our audit. 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 from its responsibility to address the issues we raise and to maintain adequate systems of control.

**13.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

## Auditor Independence

**14.** 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 comply with professional standards issued by the Financial Reporting Council and those of the

professional accountancy bodies. 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 2021/22 audit fee of £540,526 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

### **Audit appointment from 2022/23**

**16.** External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue to be the appointed auditor for North Lanarkshire Council.

**17.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are several significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

**18.** We would like to thank elected members, Audit and Scrutiny Panel members, Chief Officers, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.

The audited financial statements include changes to the accounting treatment of Culture and Leisure North Lanarkshire (CLNL) following the transfer of services back to the council on 1 April 2021.

The audited Remuneration Report now reflects minor changes after we examined the supporting evidence for loss of office payments.

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## Our audit opinions on the annual accounts are unmodified

**19.** The accounts for the council and its group for the year ended 31 March 2022 were approved by the Audit and Scrutiny Panel on 27 October 2022. As reported in the independent auditor's report:

- 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, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**20.** Our audit opinions on Section 106 charities were also unmodified (TBC). These covered the 2021/22 statement of accounts on North Lanarkshire Council Educational Endowments and the JC McNaught Poor Children's Holiday Fund.

## The annual accounts were submitted in line with our agreed audit timetable

**21.** The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2022. The working papers provided with the unaudited

accounts were largely of a good standard and finance staff provided support to the audit team during the audit. We did however, encounter a number of challenges as part of the audit of the group, with changes to the accounting treatment of Culture and Leisure North Lanarkshire (CLNL) following the transfer of services back to the council on 1 April 2021. These changes are reflected in the audited financial statements. In addition, there were issues with the quality of some of the working papers provided for the group accounts.

### **Our audit opinions on Section 106 charities were unmodified**

**22.** 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.

**23.** Our audit opinions on the Section 106 charities are unmodified.

### **There were no objections raised to the annual accounts**

**24.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period and no objections were received.

### **Overall materiality is £15 million**

**25.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values, we also determine a lower performance materiality threshold.

**26.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**27.** Our initial assessment of materiality for the annual accounts was carried out during the 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	Amount
Overall materiality	£15 million
Performance materiality	£7.5 million
Reporting threshold	£250 thousand

Source: Audit Scotland

## We have significant findings to report on the audited annual accounts

**28.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Non-current asset valuations</b></p> <p>At 31 March 2022, the council made an adjustment to non-current asset valuations of £290 million based on a desktop revaluation exercise. This was in line with the agreed process from the prior year. The adjustment was to reflect the estimated material movements in fair value since the last full valuation, to ensure the carrying value of assets does not differ materially from current value. This is a requirement per the Accounting Code of Practice.</p> <p>The Code also requires the balance on accumulated depreciation to be eliminated. The unaudited accounts had not eliminated the accumulated depreciation balance for those assets subject to the desktop valuation.</p>	<p>The council made the necessary adjustment of £138 million to eliminate accumulated depreciation. This adjustment had a net nil impact on the net book value and on the financial statements.</p> <p>Although a five-year rolling revaluation programme is permitted per the Code of Audit Practice, significant movements in intervening years may suggest that revaluing each class of assets once every five years is not sufficient. This should be reconsidered, particularly as inflationary pressures are having a significant impact on retender and rebuild prices.</p> <p><b>Recommendation 1</b></p>

Issue	Resolution
	<p>The council should review the suitability of its 5-year revaluation policy and programme. This is particularly relevant in light of the current economic climate and inflationary impacts.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. In-sourcing of Culture and Leisure North Lanarkshire</b></p> <p>The council made the decision to in-source services provided by Culture and Leisure North Lanarkshire Limited (CLNL Ltd) from 1 April 2021.</p> <p>On review of the accounting treatment, we identified that the merger or combination had been wrongly treated in the unaudited statements:</p> <ul style="list-style-type: none"> <li>• Notes and Statements did not adequately disclose the transfer and opening balance adjustments</li> <li>• The Comprehensive Income and Expenditure Statement wrongly recognised a gain.</li> </ul> <p>These changes resulted in a net nil impact on the cumulative reserve balance at the year end.</p>	<p>The correct accounting treatment was applied in the audited financial statements and additional disclosures added to ensure transparency in the transfer of services from CLNL to the council.</p>
<p><b>3. Compensation for loss of office payments</b></p> <p>As part of our audit of the remuneration report, we examined the supporting evidence for two “compensation for loss of office payments”. This resulted in minor changes in the disclosures to accurately reflect the one-off and continuing enhanced pension payments borne by the council.</p>	<p>The audited accounts include the updated disclosures in the Remuneration Report.</p>

Source: Audit Scotland

**29.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It 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 financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is 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 and focus on significant risk areas and transactions with related parties.</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>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p><b>Results and Significant Judgements:</b> We did not identify any significant issues within our work on journals. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><b>Conclusion:</b> No issues were identified that indicate management override of controls.</p>
<p><b>2. Estimation in the valuation of land and buildings</b></p> <p>The council operates a five-year rolling programme of revaluations with whole asset classes being valued once every five years.</p> <p>Per the Accounting Code of Practice, this is acceptable "provided that the carrying amount does not differ materially from that which</p>	<p>Reviewed the information provided to the external valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the professional valuer.</p> <p>Completed a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p>	<p><b>Results and Significant Judgements:</b> No issues were identified from the review of the valuer, the information provided to the valuer or the valuation process.</p> <p>The council made an adjustment based on a desktop revaluation exercise to ensure the carrying value of assets, which had not been fully revalued in year, did not</p>

Audit risk	Assurance procedure	Results and conclusions
<p>would be determined using the current value at the end of the reporting period.”</p> <p>Last year the assessment of carrying value assets, based on a sample of school properties and review of housing properties indicated an understatement of £63.6 million, which was adjusted in the audited accounts.</p> <p>Leisure properties and open spaces are to be revalued in 2021/22. Major asset classes (school buildings and housing) have not been revalued for three and four years respectively.</p> <p>A new valuer was appointed from 2021/22.</p> <p>Management is required to assess the current values of other assets at the year end.</p> <p>There is a risk that the carrying value of assets not subject to valuations in 2021/22 will be materially misstated.</p>	<p>Reviewed reports from the valuer to confirm overall asset valuation movements.</p> <p>Obtained an understanding of the management’s involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Examined management’s assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Sample tested individual asset valuations and lives.</p>	<p>differ materially from current value.</p> <p><b>Conclusion:</b> In year valuations, whether full valuations or desktop reviews, of changes in fair value, were appropriately conducted and properly reflected in the audited statements.</p> <p>See the recommendation in <a href="#">Appendix 1</a> on reviewing the revaluation policy.</p>

Source: Audit Scotland

## Other areas of audit focus

**30.** We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- **Valuation of the present value of promised retirement benefits and North Lanarkshire Council’s share of the pension asset/liability of**

**Strathclyde Pension Fund.** We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS and the accuracy of information provided to the actuary by the council and assurances from the auditor of Strathclyde Pension Fund. There are no matters which we need to bring to your attention.

- **The accounting treatment and process for the in-sourcing of Culture and Leisure North Lanarkshire Limited (CLNL Ltd).** At the time of drafting our Annual Audit Plan, our planned work was based on transactions and balances continuing on a separate ledger to the council's main accounting system. This was not actually the case, but we reviewed the accounting treatment for the transfer of CLNL balances. The main findings from this work are summarised in [Exhibit 2](#), with changes in the audited financial statements to the accounting method and disclosures.

### **Across the UK, a technical accounting issue has been identified covering infrastructure assets.**

**31.** Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at historical cost in the accounts (£262 million at North Lanarkshire Council). A replaced component of an asset has to be derecognised and at some councils the records of additions were not detailed enough to comply with accounting code requirements. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value; accumulated depreciation and potentially the net book value of the assets.

**32.** CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

**33.** At North Lanarkshire Council, management considered the records available to support infrastructure additions and have since applied the above statutory override and have amended the infrastructure disclosures in the audited accounts.

### **All identified misstatements were adjusted in the accounts**

**34.** Total misstatements identified were £32 million. We have reviewed the nature and causes of these misstatements which mainly related to group accounting. An adjustment of £28 million was made to change the accounting treatment of the in-sourcing of CLNL as detailed in [Exhibit 2](#). This had no impact on the year end reserves position.

**35.** We have concluded that these misstatements arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

**36.** In addition, in non-current assets we identified classification misstatements totalling £4 million between asset categories including “assets under construction”, “transfers” and “additions”. The highest value of these was a misstatement of £2.4 million where expenditure was capitalised as an addition in the year under council dwellings when it should have remained in assets under construction. We reviewed our audit approach and conducted further testing of asset additions. No further errors were identified.

**37.** All misstatements above our reporting threshold have been adjusted for in the audited accounts.

### **Reasonable progress was made on prior year recommendations**

**38.** The council has made reasonable progress in implementing our prior year audit recommendations. Two out of five recommendations made in the prior year have been substantially completed with two others partly completed. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Main judgements

The council reported a provisional underspend against budget of £28 million. The General Fund (including HRA) increased by £55 million as a result of underspends.

The Covid-19 pandemic resulted in 2021/22 costs of £68 million, which were mostly funded by Scottish Government Covid-19 funding and council reserves.

The council has a track record of delivering savings but acknowledges that this is becoming increasingly challenging.

Weaknesses in some key controls resulted in additional audit work.

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### The council operated within budget in 2021/22

**39.** The council approved a General Fund Revenue Budget of £849.4 million in March 2021. This was later revised to incorporate the council's Covid Recovery Budget and resulted in a final budget of £874.7 million.

**40.** The council reported a provisional outturn service underspend against in-year budget of £28 million. Services generally underspent and these are summarised in [Exhibit 4](#). This includes an underspend of £17 million at a corporate level. £8.7 million of this underspend is from management of borrowing and a review of the loans fund advance repayments policy undertaken in 2020/21.

**41.** The council budgets separately for expenditure from reserves and for additional income which is transferred to reserves. The council spent £36 million from existing reserves and created further new reserves of £74 million, leading to a net increase in the general fund (including HRA) of £55 million.

**Exhibit 4****Summary of significant under/overspends against budget per provisional outturn**

Area	£m	Reason for variance
<b>Underspends</b>		
Education and Families	£3.6	Savings in employee costs due to the finalisation of the Early Years operating model and updated staffing structure in schools and service headquarters.
Enterprise and Communities	£4.1	Savings in employee costs due to vacancy savings across the service and an underspend in property costs.
Chief Executives and other corporate services	£1.0	Savings in employee costs due to a freeze on recruitment and other employee costs underspends. These savings were partly offset by a delay in delivering Digital NL savings.

Source: North Lanarkshire Council 2021/22 Outturn Report

**Housing revenue account has an in-year deficit met from reserves**

**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 council overall surplus of £27.6 million includes a £7.9 million deficit on HRA services. This was largely as a result of increased repair costs due to inflationary uplifts and rental recovery being less than budgeted.

**44.** The HRA balance of £19.5 million, forms part of the General Fund. £12.9 million of the HRA balance has been approved for specific purposes. These include £5.1 million on Council Ambition, £2.5 million on the HRA capital energy efficiency programme and £2.5 million to fund housing repairs.

**The financial position was effectively monitored**

**45.** 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.



**46.** 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 members and officers to carry out effective scrutiny of the council's finances.

### **The Covid-19 pandemic resulted in 2021/22 costs of £68 million, which were mostly funded by income**

**47.** The impact on public finances of the Covid-19 pandemic has been unprecedented, with the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**48.** The council excluded the impact of Covid-19 from its 2021/22 budget when it was initially set in March 2021, due to the level of uncertainty around costs and levels of funding. A separate exercise was completed to consider Covid-19 funding and associated costs later in the year with the Covid Recovery Budget presented to committee in September 2021.

**49.** The Covid Recovery Budget covers the financial years 2021/22 and 2022/23. In 2021/22, net costs of £50.8 million and one-off investment of £7.9 million were forecast for Covid-19. Total budgeted resources were £68.1 million, leaving £9.4 million to be carried forward and used in 2022/23.

**50.** The resources available for Covid-19 costs include Scottish Government funding of £54 million, a general fund contribution of £6.5 million and other council funding of £7.6 million. Net costs were budgeted based on information from the Scottish Government's most recent route map at the time. Budgeted costs included education recovery (£30.8 million), which largely relates to investment in newly qualified teachers, and shortfall in council tax income (£1.5 million). The council's core budget was updated to include the Covid Recovery Budget leading to a final budget of £874.7 million for 2021/22.

**51.** Covid-19 spend was tracked through the council's budget monitoring process with a separate appendix prepared in reports to the Corporate Management Team showing Covid-19 related costs against income. Per provisional outturn reporting, total Covid-19 expenditure in 2021/22 was £67.6 million, just £0.03 million different from the budget. Covid-19 income was £66.7 million, leaving net expenditure of just under £1 million.

**52.** The council continued to administer a number of grant schemes on behalf of the Scottish Government. The council made grant payments of £17.2 million in 2021/22. £4.8 million was paid for the Child Bridging Payment and a further £2.8 million was administered by the council for the Retail and Hospitality top up grant.

## There has been a significant increase in the level of General Fund reserves

**53.** 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 £231 million in 2020/21 to £290 million in 2021/22.

**54.** The general fund is the largest usable reserve and is used to support the delivery of services. The net general fund surplus for 2021/22 was £63 million (excluding HRA), which is explained in paragraph 42 of this report.

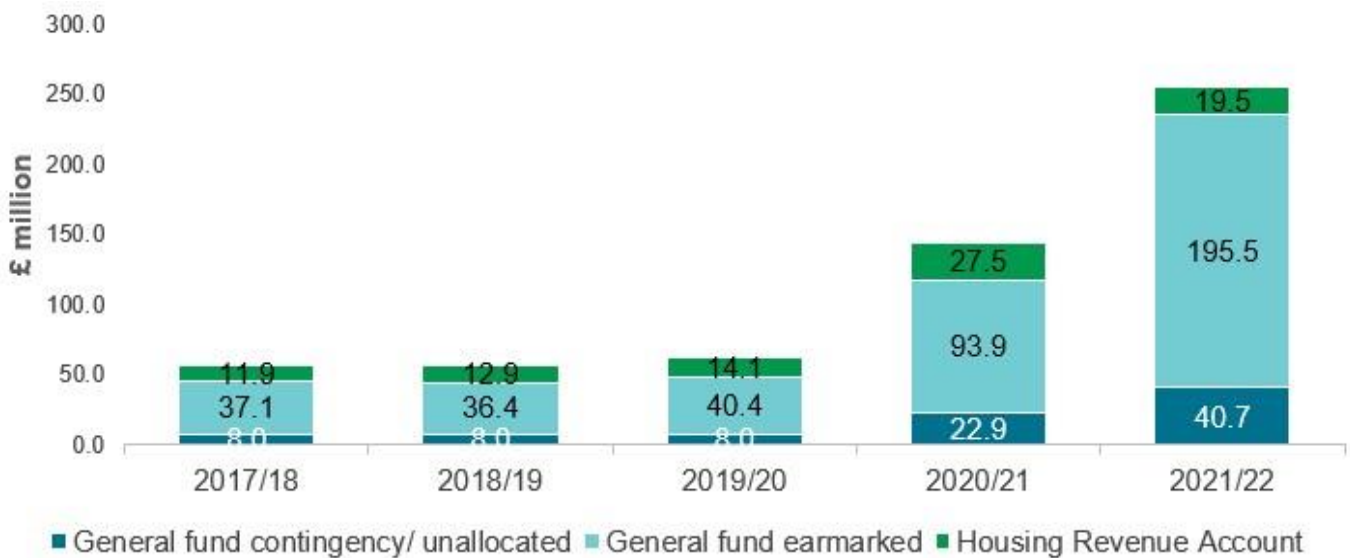
**55.** Total general fund reserves now stand at £236 million and include £30.6 million of Covid-19 earmarked funding and £138.5 million earmarked for specific future commitments such as early years and childcare expansion (£14.2 million), temporary accommodation (£9.3 million), energy costs/ other non-pay inflation (£7.2 million) and pupil equity fund balance (£5.1 million).

**56.** The general fund also now includes a balance of £54 million held for future contractual obligations of Public Private Partnership (PPP) schools. This had previously been recognised as an accrual in the financial statements, but as disclosed in the management commentary, this balance is now correctly shown as an earmarked element of the General Fund and is intended to match funding and expenditure over the lifetime of the PPP contract. This was accounted for as a prior year adjustment and increased the opening general fund balance for the year.

**57.** The unearmarked general fund balance of £40.7 million includes the council's £8 million contingency. This is held to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

**58.** [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 two years due to surpluses, Covid-19 funding and revised treatment of the PPP funding balance. The council advised this level of reserves is required to ensure it remains financially sustainable over the medium term.

## Exhibit 5 Analysis of general fund balance



Source: North Lanarkshire Council Annual Accounts 2021/22

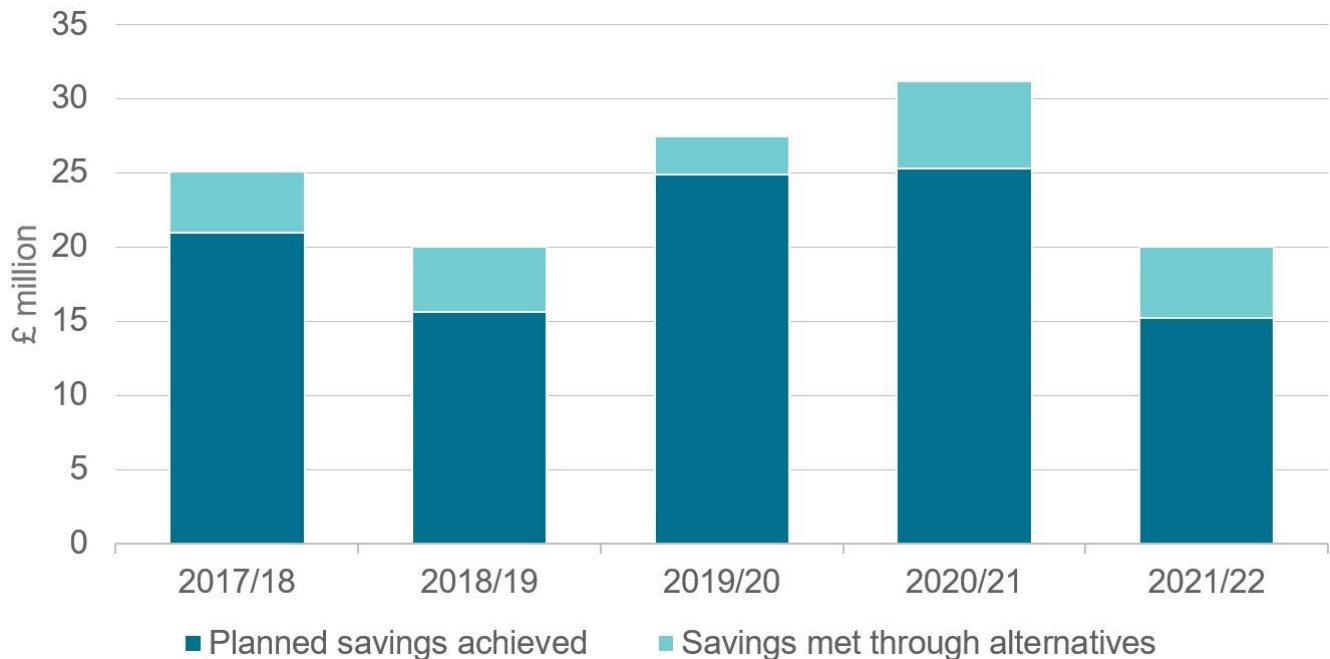
## The council has a track record of delivering savings, but this is becoming increasingly challenging

**59.** In February 2020 the council approved a three-year savings programme of £40 million, alongside the budget setting process. The budget set in March 2021 incorporated planned savings of £20 million. Savings plans included reconfiguration of the secondary school week, a review of environmental asset structures and savings from the Digital NL project.

**60.** The council achieved actual savings of £14.2 million (71% of this total), leaving an in-year savings gap of £4.8 million with just under £1 million of these recurrent savings. The shortfall was dealt with through alternative savings and management action such as control of vacancies and curtailment of spending in other areas.

**61.** The council has a track record of delivering savings but acknowledges the increasing challenges in delivering some of the planned savings. The challenging impact of Covid-19 and increasing prices and demand for certain services have impacted on the achievement of savings. Services continue to keep previously unachieved savings under review and identify alternative action to manage the in-year impact and any potential recurring impact.

**62.** As illustrated in [Exhibit 6](#), the council has delivered total cumulative savings of £124 million since 2017/18. £102 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 2017/18 to 2021/22

**The council revised its Strategic Capital Investment Programme**

**63.** The council's revised Strategic Capital Investment Programme for 2021/22 to 2025/26 was approved in March 2021. Since then, a number of challenges have been encountered as a result of recovering from the pandemic and due to Brexit affecting the availability of labour and raw materials.

**64.** These factors led to lower than planned expenditure and therefore lower levels of borrowing. As a result, the council reprofiled delivery of the capital programme across the remainder of the five-year capital planning period. The revised Strategic Capital Investment Programme was approved at Policy and Strategy Committee in March 2022.

**Financial systems of internal control generally operated effectively but we identified a number of areas for improvement**

**65.** Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

**66.** Our 2021/22 testing covered key controls in a number of areas including budget monitoring, payroll, journals, housing rents, council tax, non-domestic rates and IT access.

**67.** We identified a number of areas where controls can be improved. See [Exhibit 7](#) for details of the key controls risks we identified.

**68.** These findings impacted on our audit approach where we needed to carry out additional work to enable us to obtain the required assurance for our audit of the annual accounts.

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## Exhibit 7

### Key findings from review of key controls

Audit finding	Additional audit procedures
<p><b>1. Payroll user access</b></p> <p>The review of user access over iTrent was not carried out as planned due to the constraints arising from Covid-19 and the need to prioritise service delivery. A review of access was completed in January 2021, with the next review scheduled for April 2022. This used to be a bi-annual check. However, it will have been 15 months between the last check and the next scheduled one in April 2022. This control is not operating as expected.</p> <p><b>There is a risk that individuals continue to have inappropriate access to the payroll system.</b></p>	<p>We substantively tested a sample of users to ensure that access permissions are appropriate.</p>
<p><b>2. Payroll validation checks</b></p> <p>We have previously reported this issue. Each service is emailed periodically a list of all staff on iTrent and include details of their latest pay. Line managers are expected to review these staff listings for any errors. A response is only expected if there is an issue, therefore no positive assurance is received.</p> <p><b>There is a risk that staff remain on the payroll after they have left.</b></p>	<p>We substantively tested an extended sample of paid employees to ensure they exist as current employees through confirmation to other records.</p>
<p><b>3. Non-domestic rates reliefs and council tax discounts</b></p> <p>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. During 2021/22, these checks only took place for the first six months of the year.</p> <p>Officers should complete annual reviews of those with continuing reliefs or discounts to ensure they</p>	<p>We substantively tested an extended sample of reliefs for non-domestic rates and discounts for council tax.</p>

Audit finding	Additional audit procedures
<p>should still be in receipt of these. There were four categories of non-domestic reliefs where these did not happen because of time constraints.</p> <p><b>There is a risk that non-domestic rates reliefs and council tax discounts are awarded incorrectly.</b></p>	
<hr/> <p>Source: Audit Scotland</p> <hr/>	

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

**69.** The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**70.** We have reviewed the arrangements and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

**71.** There are also established arrangements to maintain standards of conduct.

**72.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council has taken a risk-based approach to the investigation of NFI matches. We considered that the approach was appropriate and found that Internal Audit took an active role in continuing to regularly report NFI activity to the Audit and Scrutiny Panel.

# 3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered

## Main judgements

Latest budget monitoring reports project a small surplus for 2022/23.

The council has a well-developed medium-term financial plan. The council's five-year projections to 2027/28 forecast a cumulative funding gap of £109 million.

### Latest budget monitoring reports project a small surplus for 2022/23

**73.** The General Fund Revenue Budget for 2022/23 of £887 million was approved by the council in February 2022. This included spend which is offset by ring fenced grants of £50 million resulting in an opening budget position for Net Service Expenditure of £837 million.

**74.** Additional funding has since been confirmed with a revised budget of £875 million. Budget monitoring reports to July 2022, presented to the Finance and Resources Committee, report a projected small surplus of £0.2 million against this budget. The budget set for 2022/23 does not reflect the impact of inflation and increased energy costs.

**75.** The budget includes £10.5 million of approved savings. However, the overall savings target has been brought down to £7.1 million after taking account of £3.4 million one-off resources set aside to manage the implementation of savings. £5.2 million of the approved savings are expected to be delivered within the financial year which is 73% of the reduced target.

**76.** The current economic climate remains uncertain, with the continuing impact of Covid-19 together with the added cost pressures from inflation and the cost-of-living crisis. These will present significant challenges to financial planning and the ability of the council to deliver quality services.

### The council has a well-developed medium-term financial plan with a cumulative funding gap of £109 million

**77.** The council has a five-year medium-term financial plan which 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.

**78.** An update to the medium-term financial plan was presented to the Policy and Strategy Committee in September 2022 covering financial years 2023/24 to 2027/28. The council's projections over the five years to 2027/28 forecast an envisaged cumulative funding gap of £109 million. The envisaged cumulative funding gap over the next three years is £75 million.

**79.** The updated plan reflects an increase in the estimated pay award for 2022/23 which has still to be agreed. The previously assumed uplift for the pay award was 2.5%, however the council has estimated that it will cost an additional net 1% or 4.7 million. The Scottish Government continues to review the potential for additional flexibilities to support councils fund the additional cost of the pay award. Given there is still no agreement, the council plan reflects an additional burden of £4.7 million.



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# 4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

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## Main Judgements

Governance arrangements operating throughout 2021/22 were appropriate and operated effectively.

Improvements were made in performance reporting in the annual accounts.

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### **Governance arrangements operating throughout 2021/22 were appropriate and operated effectively**

**80.** We have previously reported on how the council adapted to the impact of the Covid-19 pandemic and the changes it had to implement as a result. For example, holding committee meetings remotely.

**81.** In March 2022, the council approved a Covid Operating Model, in line with Scottish Government guidance. This model provides a basis for the council's operations over the next six months whilst taking account of the ongoing risks relating to the Covid-19 pandemic.

**82.** Our previous conclusion remains, we consider the governance arrangements operating throughout 2021/22 were appropriate. These arrangements help support effective scrutiny, challenge and decision making.

### **Local Government elections led to a change in administration before the Leader resigned and the previous administration was reinstated**

**83.** 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.

**84.** This change in administration meant that the convenor of the Audit and Scrutiny Panel reverted to a Conservative group member – and our concern over whether this Panel was going to be overseen by a member of the administration was resolved.

**85.** New committee conveners were appointed in August 2022 with committee meetings resuming from the end of that month. There has been a move to hybrid meetings and the return of in person meetings held at the Civic Centre for a number of committees.

### **Improvements to performance reporting in the annual accounts were identified**

**86.** Our review of the management commentary against guidance, identified some areas for improvement. For example, the unaudited accounts lacked analysis of the council's business using key performance indicators. These should be used to demonstrate the performance of the council against its strategy/objectives in a measured way. The accounts were subsequently updated with performance information.

### **The council's continued reporting of Covid-19 agency costs represents good practice**

**87.** The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. As part of our work on the annual accounts, we identified the reporting of covid agency costs and funding as good practice. This disclosure is made in Note 12 to the accounts.

# 5. Best Value

Using resources effectively and continually improving services.

## Main judgements

Good progress has been made in addressing previous Best Value Assurance Report findings.

## Good progress has been made in addressing previous Best Value Annual Report findings

**88.** Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council has been considered by the Accounts Commission at least once over the last appointment round. The [BVAR report](#) for the council was published in May 2019.

**89.** At its meeting in June 2019 the council agreed the recommendations within the Best Value Assurance Report. Progress on the eight recommendations was reported to the Policy and Strategy Committee in September 2019 and March 2020. After that, recommendations have been mapped to the council's Programme of Work which underpins the overarching Plan for North Lanarkshire vision. Progress on the recommendations is tracked through the various updates on the Programme of Work which go to Committee.

**90.** [Exhibit 8](#) summarises our assessment of each of the outstanding recommendations. This shows that good progress has been made on progressing previous BVAR findings, with a further two recommendations considered as complete.

**91.** The Controller of Audit will consider the results of this follow up work, and report to the Accounts Commission on the extent of improvements made.

## Exhibit 8

### Progress on Best Value Recommendations

BVAR Recommendation	Summary of progress
The council should implement the recently approved Performance Management Framework and	There were three pilot reports (Regulatory Services, Financial Solutions and Business Solutions) which were submitted to the respective service committees in August/September 2021 in line with the indicators in the Strategic Performance Framework. There is

BVAR Recommendation	Summary of progress
<p>reporting schedule to support the delivery of the Plan for North Lanarkshire and its scrutiny by members.</p>	<p>alignment in these reports to the ambition statements in The Plan for North Lanarkshire Council. Feedback from these pilots was positive from both Heads of Service and Elected Members.</p> <p>These pilots were then rolled out for six monthly reporting thereafter in February/March 2022. Work is underway to roll out this approach to all the other Heads of Service areas, with a view to concluding this development phase and all Heads of Service having six monthly reporting in place for cycle four of 2022.</p> <p>The original Strategic Performance Framework (approved in September 2019) is currently undergoing an update with Heads of Service reviewing their indicators and setting targets and thresholds for the next three years. The updated Strategic Performance Framework will reflect the updates to the SPI Direction published in December 2021. An update to the Strategic Performance Framework is scheduled for later in the year as per the Programme of Work.</p> <p><b>Good progress has been made, with completion expected later in 2022/23</b></p>
<p>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.</p>	<p>The Business Improvement Hub (BI Hub) is a medium to long-term project. Phase three saw the development of Service BI Hub elements within Housing Solutions. Targeted dashboards have also been developed together with a dashboard for complaints performance indicators. These are linked with the three levels of the Strategic Performance Reporting Framework.</p> <p>Elected Members can now review dashboard information and filter this down to ward level or specific areas. In phase four of the development, customer satisfaction information will be brought into the BI Hub.</p> <p><b>Limited progress has been made, with satisfaction information still to be developed</b></p>
<p>Workforce plans should be finalised to set out the current and future workforce requirements of the council and evidence how this</p>	<p>All Heads of Service completed a workforce plan which subsequently went to Corporate Management Team in April 2022. These plans will be reported to the Policy and Strategy Committee later in the year. The workforce plans help to identify any gaps, any barriers such as recruitment, as well as the next steps over the longer-term.</p>

BVAR Recommendation	Summary of progress
<p>supports other strategies.</p>	<p>Within the workforce plans, references are made to other Strategies within the council, such as the Digital and IT strategy to ensure these are fully supported and integrated. Furthermore, all workforce plans also refer to external drivers such as key agencies and Internal/ External Audit recommendations to keep plans on track.</p> <p><b>This recommendation is considered complete</b></p>
<p>Improvement plans arising from self-evaluation exercises should include measurable actions and clear deadlines.</p>	<p>Five self-evaluation exercises were carried-out in the last year:</p> <ol style="list-style-type: none"> <li>1. Data Governance Board</li> <li>2. Risk governance arrangements Digital NL</li> <li>3. CIPFA</li> <li>4. Corporate Management Team</li> <li>5. IJB - self-evaluation workshop</li> </ol> <p>A sixth self-evaluation exercise has been concluded for reporting to the Corporate Management Team by the end of September 2022. Furthermore, the Strategic Self-Evaluation Framework and rolling review programme will undergo an annual review and update and will go for further review later in the year to the Audit and Scrutiny Panel in line with the Programme of Work.</p> <p>Each self-evaluation identified improvement actions which are captured in an improvement plan. These improvement plans include improvement actions with target dates and responsible officers identified.</p> <p><b>This recommendation is considered complete</b></p>

Source: Audit Scotland

## Statutory performance indicators (SPIs) are being met

**92.** The Accounts Commission has a statutory responsibility to define 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 Accounts Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**93.** The Accounts Commission issued a revised [Statutory Performance Information Direction](#) in December 2018 which continues to apply in 2021/22. It requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities

**94.** We have evaluated the council's arrangements for fulfilling the above requirements and concluded that the council complies with the Direction.

**95.** The pandemic continued to impact on the council's performance levels and the availability of performance results. This led to challenges in ensuring regular performance reporting was maintained. Despite these challenges, the council was still able to establish a series of performance reporting pilots.

**96.** These pilots reaffirmed responsibilities for each of the service committees. For each service area, suites of performance results are set out. Reporting of progress against the council's long-term vision is balanced with delivering on what matters locally. The suite of performance indicators also included information from a nationally developed Covid-19 data dashboard. This was established so the council's response to the pandemic could be monitored.

**97.** We reported in 2020/21 that a new Business Intelligence Hub was being created which will eventually be the primary way in which performance data is collected and reported. Work continues on this project, and when complete should allow for improved analysis of performance data.

## National performance audit reports

**98.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 2](#).

**99.** Relevant national reports continue to be presented to the Audit and Scrutiny Panel throughout the year. This includes an assessment from management of the council's position against the recommendations contained in the reports.

# Appendix 1. Action plan 2021/22

## 2021/22 and prior year (b/f) recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Non-current asset valuations</b></p> <p>Our review identified that as a result of the council's policy to revalue assets every five years there is a risk that the valuation of major asset classes (e.g. education estate and council dwellings) may have changed materially since their last full valuation. Although in line with previous practice, some valuations had not been updated for three years on major asset classes (school buildings and housing) and no assessment was undertaken to determine if these asset values differed materially from current 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 assess annually whether the carrying value of assets is materially different from current value.</p>	<p><b>Substantially complete</b></p> <p>At 31 March 2022, the council applied an adjustment of £290 million based on a desktop review of BCIS rebuild costs to reflect estimated material movements in current value since the last valuation.</p> <p>Refer to <a href="#">Exhibit 2</a></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. We recommend that the council reviews its rolling approach to asset revaluation over 5 years.</p> <p><b>Management response:</b></p> <p>The Council will undertake a review of its current 5-year revaluation programme in light of the current economic climate and inflationary impacts. It is intended that this will be subject to early discussions with the Audit</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Lead and any further guidance issued.</p> <p><i>Elaine Kemp</i> 30 June 2023</p>
<p><b>b/f 2. Non-current asset accounting</b></p> <p>A review of the fixed asset register identified various errors in the useful lives of assets, depreciation, and net book value of assets.</p> <p>Risk – There is a risk that assets will be incorrectly accounted for in the financial statements.</p>	<p>The council should complete a detailed quality review of its fixed asset register at each year end to identify any errors which could feed into the financial statements.</p>	<p><b>Substantially complete</b></p> <p>A review of the revaluations working paper was completed by officers at the year end, however in 2021/22 audit review identified issues with asset classification between Assets under construction and completed assets.</p> <p>We recommend that processes are revised to review classification of assets.</p> <p><b>Management response:</b></p> <p>The Council will include a review of asset classifications within the annual fixed asset review process in order to identify and correct any classification errors.</p> <p><i>Elaine Kemp</i> 30 June 2023</p>
<p><b>b/f 3. Internal controls</b></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 are reinstated.</p>	<p><b>Outstanding</b></p> <p>During 2021/22, these checks only took place for the first six months of the year.</p> <p>Annual reviews of those with continuing reliefs or discounts were not conducted in four categories of reliefs.</p> <p>The council should ensure second officer checks are completed throughout the year for a sample of new and continuing reliefs and</p>



Issue/risk	Recommendation	Agreed management action/timing
		<p>discounts across all categories.</p> <p><b>Management response:</b></p> <p>Sample second officer checks on new reliefs/ discounts have been reinstated during 2022/23 and will continue to be actioned.</p> <p><i>Elaine Kemp</i></p> <p><i>No further action</i></p>
<p><b>b/f 4. User access</b></p> <p>Each financial system has controls in place for staff to gain 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><i>The Revenues and Benefits bi-annual User Review was delayed due to the impact of Covid 19 on Service Delivery. The potential increased risk of inappropriate access was for a limited period only with the full User Review programme re-initiated in May 2021 with the overall process due to be fully completed by quarter three.</i></p> <p><b>Responsible Officer: Paul Doherty</b></p> <p><b>December 2021</b></p>	<p><b>Partially complete</b></p> <p>The planned reviews were completed across all systems with the exception of the payroll system iTrent. Therefore the risk remains for this system.</p> <p>Refer to <a href="#">Exhibit 9</a> for further details.</p> <p><b>Management response:</b></p> <p>iTrent review completed August 2022. Not sufficient resource to complete more than annually at present. Alternative options will be pursued to increase review timeframe.</p> <p><i>William Cunningham</i></p> <p><b>April 2023</b></p>
<p><b>b/f 5. Payroll – validation checks</b></p> <p>We reported last year that employee validation checks</p>	<p><i>Positive validation reports have been implemented for Education and Families and</i></p>	<p><b>Partially complete</b></p> <p>Positive validation reports have been implemented and we concluded that the control</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>are now carried out by payroll across all council services. However, this process is still considered incomplete as it does not require positive confirmation that the employee listing is correct. We note that positive confirmation was implemented for the Education service towards the end of 2020/21 and has been rolled out to all council services from May 2021.</p> <p>Risk – There is the risk that the absence of a periodic validation of all staff through positive confirmation of employment staff remain on the payroll after they have left employment.</p>	<p><i>this exercise will be repeated on a yearly basis.</i></p> <p><i>Positive validation for all other services will be undertaken in July 2021 and yearly thereafter.</i></p> <p><b>Responsible Officer:</b> <b>Jennifer Hardy, Employee Service Centre Manager</b></p> <p><b>July 2021</b></p>	<p>is now operating as intended. However, this is a slow cycle with one or two services being reviewed each year. Therefore it is important the council takes forward the employee listing control and receives positive assurance for this.</p> <p>Refer to <a href="#">Exhibit 9</a> for further details.</p> <p><b>Management response:</b></p> <p>Employee validation checks are carried out on a service-by-service basis. A positive response is required to validate information, and this is logged, tracked and checked by the HR Audit and Compliance Team. This is a labour-intensive process, however the intention is to carry out employee validation checks for each service and this will be repeated each year for each service on a rolling basis. These checks are supplemented by a monthly structure report that is sent to managers to highlight any anomalies.</p> <p><i>Yvonne Doyle</i></p> <p><b>July 2023</b></p>

# Appendix 2. Summary of 2021/22 national reports and briefings

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# North Lanarkshire Council

## 2021/22 Annual Audit Report

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