

# South Lanarkshire Council

## 2017/18 Proposed Annual Audit Report

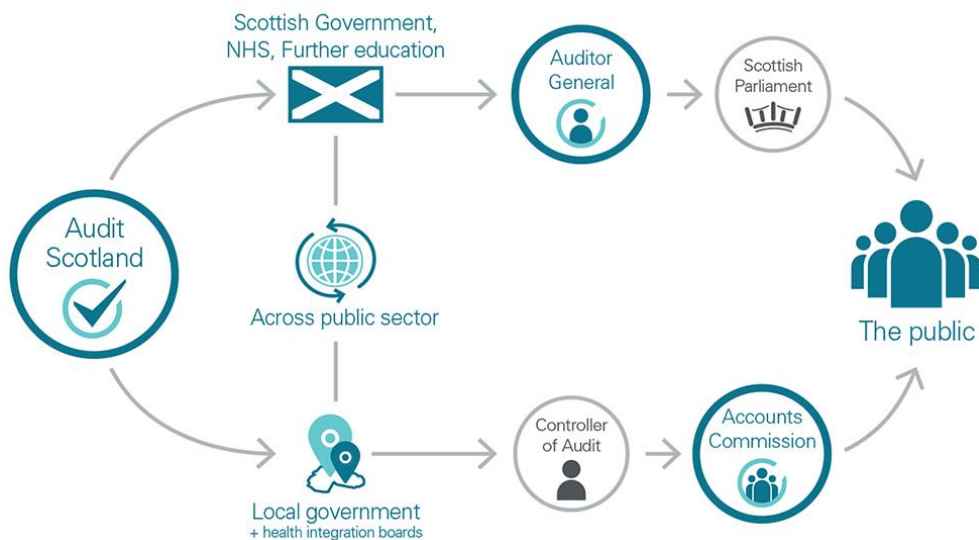


Prepared for the Members of South Lanarkshire Council and the Controller of Audit  
18 September 2018

## Who we are

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

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



## About us

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

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

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# Key messages

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## 2017/18 Annual Accounts

- 1 The financial statements of South Lanarkshire Council give a true and fair view of its financial position for the year ended 31 March 2018.
- 2 We have issued an unqualified independent auditor's report on the Council's Annual Accounts and those of the three charities administered by the Council.

## Financial management

- 3 The Council reported an underspend for the year of £28.008 million (4.2%) against its revised revenue budget for 2017/18.
- 4 Financial management is effective and the Council has delivered services within budget. However, budget monitoring and reporting needs to be further improved to provide members with an earlier indication of the projected annual outturn and clearer explanations of budget variances.

## Financial sustainability

- 5 The Council now has a long-term financial strategy identifying budget pressures, future risks and uncertainties and includes scenario planning and sensitivity analysis.
- 6 The Council has credible short term financial plans and adequate levels of reserves to respond to unexpected events
- 7 The authority is facing a challenging situation in the medium to long-term due to reduced funding, rising costs and increased demands on services.

## Governance and transparency

- 8 The Council's governance arrangements are effective.
- 9 The Council conducts its business in an open and transparent manner but there is scope to identify opportunities to increase citizen participation.

## Best Value

- 10 The Best Value Assurance Report for South Lanarkshire Council will be published in 2019.
- 11 The Council demonstrates improved performance over a range of services, for example Education. However, there are still some areas which require attention including service satisfaction.
- 12 The Council should review their internal reporting to ensure elected members are being provided with a clear picture of performance against the Connect Objectives.

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# Introduction

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## Background

1. Each auditor appointed by the Accounts Commission is required to prepare an annual audit report, addressed to elected members and the Controller of Audit, on the audit activity undertaken during the year. The report is expected to contain comment and judgements on a body's arrangements for financial management and the wider dimensions of public audit, [exhibit 1](#). This is our Annual Audit Report for 2017/18.

2. This report will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Scope of our audit

3. The scope of the audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Risk and Audit Scrutiny Forum.

4. This report sets out our findings from:

- the audit of the Annual Accounts
- consideration of the wider dimensions of public sector audit, [exhibit 1](#), as set out in Audit Scotland's [Code of Audit Practice](#).

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## Exhibit 1 Audit dimensions



5. The main elements of our audit work in 2017/18 were:

- a review of the Council's main financial systems and governance arrangements
- the audit of the Council's 2017/18 Annual Accounts
- audit work covering the Council's arrangements for securing Best Value relating to performance, outcomes and improvement.

## Responsibilities

6. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the auditor's responsibility to express an opinion on the financial statements prepared by management. This does not relieve management of the responsibility for the preparation of the Annual Accounts.

7. The management of South Lanarkshire Council is responsible for, inter alia:

- preparing financial statements which give a true and fair view
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

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

## Adding value through the audit

9. We seek to add value to the Council by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the Council promote improved standards, better management and decision making, and more effective use of resources.

## Recommendations

10. An agreed action plan is included at [appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these. We recognise that not all risks can be eliminated or even minimised. What is important is that the Council understands its risks and has arrangements in place to manage them. Members should ensure that they are satisfied with proposed actions and that adequate mechanisms are in place to assess progress and monitor outcomes.

## Ethical considerations

11. We comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit services; the audit fee of £481,670, set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Acknowledgement

12. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Part 1

## Audit of 2017/18 Annual Accounts



### Main judgements

The financial statements of South Lanarkshire Council give a true and fair view of the financial position for the year ended 31 March 2018.

Unqualified audit opinions issued on the Council's Annual Accounts.

Unqualified audit opinions issued on the three charities administered by the Council.

### Audit opinions on the Annual Accounts

**13.** The Council's Annual Accounts for the year ended 31 March 2018 were approved by the Risk and Audit Scrutiny Committee on 18 September 2018.

**14.** We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified audit opinion on the management commentary, remuneration report and annual governance statement.

**15.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

**16.** We comment on the audit of charities administered by the Council at the end of this part of the report.

The Council's Annual Accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

### Submission of the Council's Annual Accounts for audit

**17.** We received the unaudited Annual Accounts on 29 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan. The unaudited Annual Accounts were of a good standard.

**18.** The working papers provided with the unaudited accounts were of a high standard and finance staff provided excellent support during the audit. This helped ensure that the final accounts audit ran smoothly and enabled us to complete the audit in accordance with the agreed timetable.

### Disclosure checks

**19.** We reviewed the unaudited accounts against the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code). The disclosure checks did not identify any significant departures from the requirements of the 2017/18 Code; however, some presentational issues were identified. These were discussed with management and appropriate amendments made.

## Good practice in financial reporting

**20.** The annual accounts reflect good practice as set out in Audit Scotland's guidance, '[Improving the quality of local authority accounts – expenditure and funding analysis](#)', and our discussions with finance officers on the most effective presentation for users of the accounts.

## Management commentary, annual governance statement and remuneration report

**21.** The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, a management commentary and a remuneration report which are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable, and clearly address the longer-term financial sustainability of the body.

**22.** In our Annual Audit Report for 2016/17 we were critical of the standard of narrative reports in the unaudited Annual Accounts. Management made adjustments and we commented that; "We would expect that the Annual Accounts will evolve over the next few years to provide a more user friendly guide to the Council's in-year financial activities and results".

**23.** We are pleased to report a significant improvement in the quality of the 2017/18 Annual Accounts submitted for audit. Of particular note is: improved compliance with guidance; better clarity of narrative; a reduction in superfluous detail; and, greater use of graphics.

## Risk of material misstatement

**24.** The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and potential impact on the financial statements. These risks informed the audit strategy, resources and activity. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2](#) explains how we addressed the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

## Materiality

**25.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

**26.** Our initial assessment of materiality for the financial statements is undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

**27.** On receipt of the Annual Accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our final materiality levels are summarised at [exhibit 2](#).



## Exhibit 2

### Materiality levels

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018.	£10.716 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£5.358 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to members would be £100,000.	£100,000

### Evaluation of misstatements

**28.** We identified 6 misstatements in the unaudited financial statements, all of which have been adjusted in the audited accounts. As a result of these changes the net income recognised in the Comprehensive Income and Expenditure Statement reduced by £51.239 million and the net assets shown in the Balance Sheet have reduced by the same amount.

**29.** The gross value of misstatements (including classification errors) totalled £124.655 million. An analysis of the significant changes are set out at [exhibit 3](#). As this exceeded our overall materiality of £10.716 million further audit procedures were performed to provide assurance that the errors identified were isolated in nature and not pervasive to either the account area or the financial statements.

### Significant findings


**30.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan at [appendix 1](#) has been included.


**31.** In arriving at our findings we considered significant qualitative aspects of the Council's accounting practices including:

- |   |   |
|---|---|
| • Accounting policies   | • Accounting estimates and judgements   |
| • Significant financial statements disclosures                | • Timing of transactions and the period in which they are recorded              |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements            |
| • Misstatements in the annual accounts                        | • Disagreement over any accounting treatment or financial statements disclosure |

## Exhibit 3

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Capitalisation of expenditure on council dwellings</b></p> <p>We found that expenditure on council dwellings of £8.682 million (kitchens, bathrooms and heating systems) had been capitalised as property, plant and equipment additions. Subsequent investigation established that similar additions had been made over a number of years. The total being carried in the Balance Sheet at 31 March 2018 in respect of these items was £83.845 million.</p> <p>The Council's accounting treatment was based on these being capital enhancing works that improve the quality of the housing stock. However, as the impact of these improvements is already reflected in the valuation of council dwellings at 31 March 2018 we considered that a write down of the valuation was appropriate. The Council accepts this view.</p>	<p>The audited annual accounts have been amended.</p> <p>The effect is to reduce the value of property, plant and equipment in the Balance Sheet by £83.845 million.</p>
<p><b>2. Capitalisation of grouped expenditure</b></p> <p>During 2017/18 the cost of a number of capital expenditure programmes had been added to the asset register as a single asset record. The Council considers it as impractical to separate these out in to the constituent assets. A similar approach had also been adopted in prior years. There is a risk that the categorisation and value of some items may be misstated.</p> <p>To ensure that any future events impacting upon the value of the constituent assets (for example: disposal, replacement or impairment) are reflected appropriately in the asset register, we have asked the Council to review these items during 2018/19 to identify the major assets within each record.</p>	<p>The Council have agreed to conduct this review during 2019.</p> <p> <a href="#">Recommendation 1 (refer appendix 1, action plan)</a></p>
<p><b>3. Building valuations</b></p> <p>Our testing identified two in-year valuations that were not accurately reflected in the asset register. This resulted in the value of Halfmerke Primary School being overstated by £1.881 million and the value of First Steps Nursery being overstated by £0.360 million.</p> <p>We extended our testing to review all high value assets (i.e. assets valued at over £10 million) revalued during the year. This did not identify any further issues.</p>	<p>The audited annual accounts have been amended.</p> <p>The effect is to reduce the value of property, plant and equipment in the Balance Sheet by £2.241 million.</p>

Finding	Resolution
<p><b>4. Holiday pay accrual</b></p> <p>A number of anomalies were identified in the data used to calculate the holiday pay accrual. These have been corrected and a revised annual leave accrual figure has been calculated. This results in the annual leave accrual increasing by £0.658 million.</p>	<p>The audited annual accounts have been amended.</p> <p>The effect is to increase the liabilities in the Balance Sheet by £0.658 million.</p> <p>Management have agreed to investigate the source of the errors in the data to ensure that accurate information is available in the future.</p> <p> <a href="#">Recommendation 2 (refer appendix 1, action plan)</a></p>
<p><b>5. Credit balances included in debtors balance</b></p> <p>Credit balances of £2.405 million were incorrectly included in the debtors balance in the unaudited accounts in error.</p>	<p>The audited annual accounts have been amended.</p> <p>The effect is to increase both assets and liabilities in the Balance Sheet by £2.405 million. There is no impact on the Council's net asset position.</p>
<p><b>6. Revised estimate of net pension liability</b></p> <p>International Accounting Standard 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Each year the Strathclyde Pension Fund actuary provides a report to the council allow the appropriate entries to be made to the financial statements. The actuarial estimate of the pension fund's assets at 31 March 2018 was underestimated (further explained at paragraph 39). As a consequence, the Council's share of the pension fund assets was understated in the actuary's report. This resulted in an overstatement of the Council's net pension liability by £35.506 million.</p>	<p>Management requested a recalculation of the Council's pension liability from the Strathclyde Pension Fund actuary and have adjusted the financial statements to amend the position.</p>

## Follow up of prior year recommendations

**32.** We have followed up actions previously reported and assessed progress on implementation. In total, ten agreed actions were raised in 2016/17; eight of these have been fully implemented and good progress has been made on the other two which relate to longer-term actions.

## Pension liability

**33.** As required by international accounting standards the Council has recognised its pension liability on the Balance Sheet. This section is included for information to members as we consider that the large movement from last year requires explanation and comment.

**34.** As at 31 March 2018, the Council's pension liability stood at £337.276 million compared to £710.537 million as at 31 March 2017. This is also reflected in the Balance Sheet for the group.

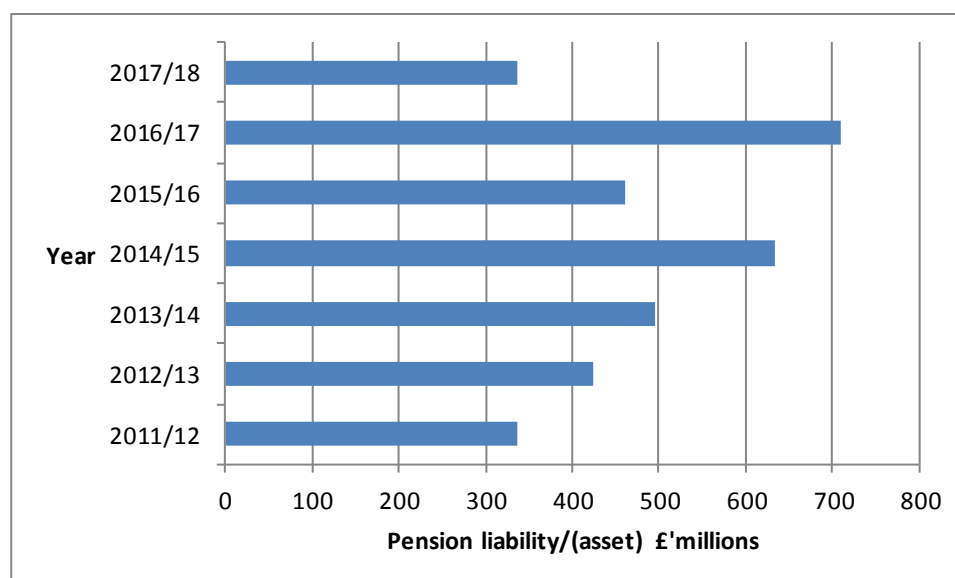
**35.** The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this cost. [Exhibit 4](#) sets out the historic movement of the Council's pension liability. Historically there has been considerable volatility year on year of the valuation of liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

**36.** South Lanarkshire Council is a member of Strathclyde Pension Fund, one of the largest pension funds in the UK. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a range of external variables, including projected rates of return on assets, interest rates and mortality estimates.

**37.** During 2017/18 Hymans Robertson LLP, the pension fund actuary, carried out a scheduled full valuation of the pension fund. This included a review of the underlying assumptions used in the calculation of the fund's future obligations. This resulted in significant reductions in the assumptions used for longevity. Thus, the expectation of lower future pension payments has contributed greatly to the reduction in the overall liability. At the triennial valuation date (31 March 2017) the Strathclyde Pension Fund was 105% funded and had assets of £19.7 billion.

## Exhibit 4

### Pension fund liability 2011/12–2017/18



Source: South Lanarkshire audited Annual Accounts 2011/12 to 2017/18

**38.** Pension disclosures for inclusion in participating bodies' financial statements are provided annually by the Strathclyde Pension Fund actuary. Actuarial reports are produced in advance of the year end, by calculating an asset valuation prior to the year end and estimating the results for the final months of the year.

**39.** For 2017/18 there was a significant difference between the actuary's estimated value of the assets at the year end and the actual outturn reported in the annual accounts of Strathclyde Pension Fund. This difference was only around 2.5%, however, when applied to the asset share of individual bodies the differences become material. In the case of South Lanarkshire Council, this required an amendment resulting in a reduction of £35.506 million in the net pension liability from £337.276 to £372.782 million.

## Audit of charities administered by South Lanarkshire Council

**40.** Members are trustees for 70 trusts administered by the Council. Each trust has been included in one of three registered Scottish charities, [exhibit 5](#).

**41.** As a consequence of the interaction of the Local Government in Scotland Act 1973 with charities legislation, a full and separate audit and independent auditor's report is required for each registered charity irrespective of the value of its assets.

**42.** Our duties as auditors of the charities administered by South Lanarkshire Council are to:

- express an opinion on whether the charity's financial statements properly present the trusts financial position and are properly in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

**43.** We have given an unqualified opinion on these matters with respect to the 2017/18 financial statements of the relevant charities administered by South Lanarkshire Council.

## Exhibit 5

### Charities administered by South Lanarkshire Council

Charity	Scottish charity number	Net assets as at 31 March 2018
South Lanarkshire Council Charitable Trusts	SC025089	£1,083,114
East Kilbride Information Technology Centre Trust	SC015221	£26,869
South Lanarkshire Council Educational Trusts	SC028135	£139,401
<b>Total net assets</b>		<b>£1,249,384</b>

Source: Charities audited accounts 2017/18

**44.** In our 2016/17 Annual Audit Report we criticised the governance and administration arrangements in place over the charities and recommended that members and officers should implement revised governance arrangements for charities. In summary our concerns centred on:

- provision for separate meetings of members when acting as charity trustees
- provisions for receiving and approving accounts
- lines of reporting between Council officers and charity trustees
- training and guidance on the duties of charity trustees.

**45.** The arrangements persisted during 2017/18. However, in response to our recommendation a proposal to modernise the operation of the charities was approved by the Finance and Corporate Resources Committee in April 2018.

Subject to the approval of OSCR the revised arrangements will be in place during 2018/19. As part of our 2018/19 audit activity we will review the operation of the new arrangements.

### **Going concern**

**46.** The financial statements of the Council, its group and the associated charities have been prepared on a going concern basis. We are unaware of any material uncertainties which would cast doubt on the ability of the Council, its group and the associated charities to continue in operation for at least the next 12 months.

### **Other findings**

**47.** During the course of the audit some presentational and disclosure points were discussed and agreed with management.

### **Whole of Government Accounts**

**48.** The Council submitted a consolidation pack for the whole of government accounts audit on 23 July 2018. We will audit the return and submit it by the due date of 28 September 2018.

# Part 2

## Financial management



### Main judgements

**The Council reported an underspend for the year of £28.008 million (4.2%) against its revised revenue budget for 2017/18.**

**Financial management is effective and the Council have delivered services within budget. However, budget monitoring and reporting needs to be further improved to provide members with an earlier indication of the projected annual outturn and clearer explanations of budget variances.**

### Financial management

**49.** The [Local Government in Scotland: Financial overview 2016/17 \(November 2017\)](#) emphasised the need for budgets and forecasts to properly reflect anticipated expenditure and historic spending patterns. The setting of the annual budget impacts directly on citizens as it determines rents, council tax and other fees and charges. The budget also, implicitly, sets the level and quality of service to be provided to citizens. Central to effective financial management is the regular monitoring and scrutiny of expenditure and income against agreed budgets.

**50.** The Council has delegated responsibility for financial management to the Executive Committee whose duties include:

- Making recommendations to the Council on the budget framework and the overall revenue and capital budgets, setting of rent levels for council houses, and council tax.
- Ensuring the satisfactory performance and continuous improvement of services within the policy and budgetary framework agreed by the Council.
- Deciding on all resource directorate specific policy and operational issues referred by Resource Committees.

**51.** Budget monitoring reports for 2017/18 were taken to each meeting of the Executive Committee, and resource directorate committees, from June 2017 onwards. The budget monitoring reports up until December 2017 did not provide full year (i.e. to end 31 March) projected outturns against budget. As a consequence, members were not fully aware of the Council's likely year-end financial position until January 2018.

**52.** The budget monitoring report presented to the December 2017 Executive Committee forecast annual expenditure of £671.016 million whereas the report taken to the January Committee forecast annual expenditure of £654.090 million (a reduction of £16.926 million). Earlier budget monitoring reports had highlighted potential underspends against a number of budget lines but January 2018 was the first time that the full impact of these on the projected outturn for the year was reported.

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

**53.** The delay in reporting projected financial outturn against budget meant that the opportunity for members to consider whether the underspend on the revenue budget should be used to increase reserves, deliver new or enhanced services or reverse previously agreed service reductions was delayed. Following our discussions with management, a re-formatted budget monitoring report has been prepared with the object of improving the clarity of reporting to members.

**54.** All estimates are subject to error and it can be expected that even well prepared estimates will occasionally turn out significantly different from forecast. Budget underspends can be a good thing if they are due to efficiencies in how services are delivered, or they can be indicative of inaccurate budget setting or reduced service levels. Members should ensure that they are receiving adequate, activity-based explanations for any significant budget underspends or overspends.

**55.** The year-end budget monitoring report presented to the Executive Committee in June 2018 did not provide clear explanations for full year budget variances as the focus of this report was on movements since the January probable outturn report. To provide members with a complete picture of the variances contributing to the final outturn position, this report should be a stand-alone document providing activity-based explanations for all significant budget variances during the year.



#### **Recommendation 3 (refer appendix 1, action plan)**

**56.** Since January 2018, the format of the probable outturn reports taken to the Executive Committee has been revised to show the forecast and actual outturn before transfers to reserves. This has improved the transparency of budget monitoring information for members. We welcome the new format of these reports and note that these are being rolled out to resource committees.

## **Financial performance in 2017/18**

**57.** In February 2017, the Council approved a revenue budget of £673.338 million for 2017/18 which was an increase of £5.522 million on the base budget set for 2016/17. A package of savings, totalling £34.961 million, was incorporated into the budget. During 2017/18, the Council made in-year budget revisions which had a net impact of increasing the overall budget by £0.796 million to £673.894 million.

**58.** The Council reported an underspend for the year of £28.008 million against their revised revenue budget for 2017/18.

**59.** The Council's approved revenue budget included efficiency savings totalling £34.961 million. These comprised £16.146 million of corporate savings to be achieved through securing additional funding, increased income collection and capital receipts. The remaining £18.815 million related to budget savings to be delivered through reductions in the net service expenditure of each of the Council's five Resource Directorates.

**60.** The most significant elements making up the underspend are summarised at [exhibit 6](#). The 2017/18 net underspend against budget has resulted in the Council's general fund balance increasing from £56.941 million at 31 March 2017 to £71.040 million at 31 March 2018. The Council's usable reserves are now £112.641 million.



## Exhibit 6

### Summary of significant variances

Area	Variance from budget (£m)
Education resource directorate	£7.205 underspend
Loan charges	£5.546 underspend
Council Tax income	£5.291 collected above budget
Council tax reduction scheme	£2.340 underspend
Corporate items	£4.513 underspend

Source: Revenue Budget Monitoring Final Outturn and Annual Report and Accounts – 2017/18 report to Executive Committee (June 2018)

### Education underspend

**61.** The Council's Connect plan includes the objective to: 'Improve achievement, raise educational attainment and support lifelong learning'. We report in section 5 of this report that the Council performs well in delivering education services. As the council aims to improve educational achievement further, monitoring of how its funds are spent on education is a priority.

**62.** The Education Resource Committee has a key role in:

- Deciding on all operational issues including finance, personnel and property matters.
- Reviewing the performance of Education Resources, including the achievements in meeting corporate priorities.

**63.** The Education Resource Directorate recorded a substantial underspend of £7.205 million for the year. We are advised that this was mainly attributable to funds received for specific purposes which had not been spent during the year. This included: £2.859 million Pupil Equity Funding, £1.900 million Early Years funding and £1.585 million Children and Young People funding.

**64.** The budget monitoring reports submitted to the Executive Committee and the Education Resource Committee did not provide a clear explanation for the reasons for these underspends. They reported the amounts being carried forward but provided limited explanation for the factors contributing to these funds not being spent during the year. There is a risk that members were not provided with information sufficient for them to discharge their scrutiny role. Members need to ensure that they are clear on the reasons why the underspends occurred and what the impact will be on achieving Connect objectives.



[Recommendation 3 \(refer appendix 1, action plan\)](#)

### Corporate items underspend

**65.** A corporate items annual budget of £7.054 million was set for the year. This included resource directorate budgets for rates, utilities, the apprenticeship levy, and carbon reduction commitment. The £4.513 million (64%) underspend reported for the year reflected the element of this budget not allocated to resource directorates as it was not required due to actual increases for rates and utilities, and charges for apprenticeship levy and carbon reduction commitment, being

lower than anticipated. In addition, income was received in relation to energy and spend to save repayments which partially offset the in-year costs.

**66.** The Council have reviewed the methodology used to predict likely increases in these budget elements to ensure they accurately reflect anticipated costs or income.



[Recommendation 4 \(refer appendix 1, action plan\)](#)

### Loan charges / council tax underspends

**67.** In 2016/17 we reported on a trend of underspends in loan charges and increased council tax levels which has led to an unplanned increase in reserves. [Exhibit 7](#) provides an analysis of variances against these budgets over the past four years. The reasons for the underspends against these budget lines for 2017/18 were included in the budget monitoring reports to the Executive Committee. The Council have reviewed these budgets for 2018/19 to more accurately reflect expected expenditure/income.

## Exhibit 7

### Loan charges and council tax income surpluses 2014/15-2017/18

Variance	2014/15 £'million	2015/16 £'million	2016/17 £'million	2017/18 £'million
Loan charge underspend	£8.134	£3.079	£28.909*	£5.546
Council Tax income excess over budget	£3.906	£4.289	£3.643	£5.291
<b>Total unanticipated surplus</b>	<b>£12.040</b>	<b>£7.368</b>	<b>£32.552</b>	<b>£10.837</b>

\* The loan charges underspend for 2016/17 includes £18.3 million attributable to a decision taken during the year to defer the repayment of loans of that amount to future years. If this is excluded from the financing charges shown above, the remaining underspend for that year on estimated loan charges was £10.609 million.

Source: Revenue Budget Monitoring Final Outturn reports (2014/15 – 2017/18)

## Housing revenue account (HRA)

**68.** The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The Council does not have the power to budget to accumulate HRA reserves.

**69.** In February 2017, the Council approved a 2% increase in the average weekly rent levels for tenants for 2017/18. The rent level set reflected the income required to fund the revenue budget of £76.164 million, and a contribution towards the annual capital programme of £20.001 million.

**70.** Statutory guidance requires that a fair proportion of trading operations' surplus be allocated to the HRA. During 2017/18 the HRA received a credit of £0.273 million in respect of the surplus on Property Services.

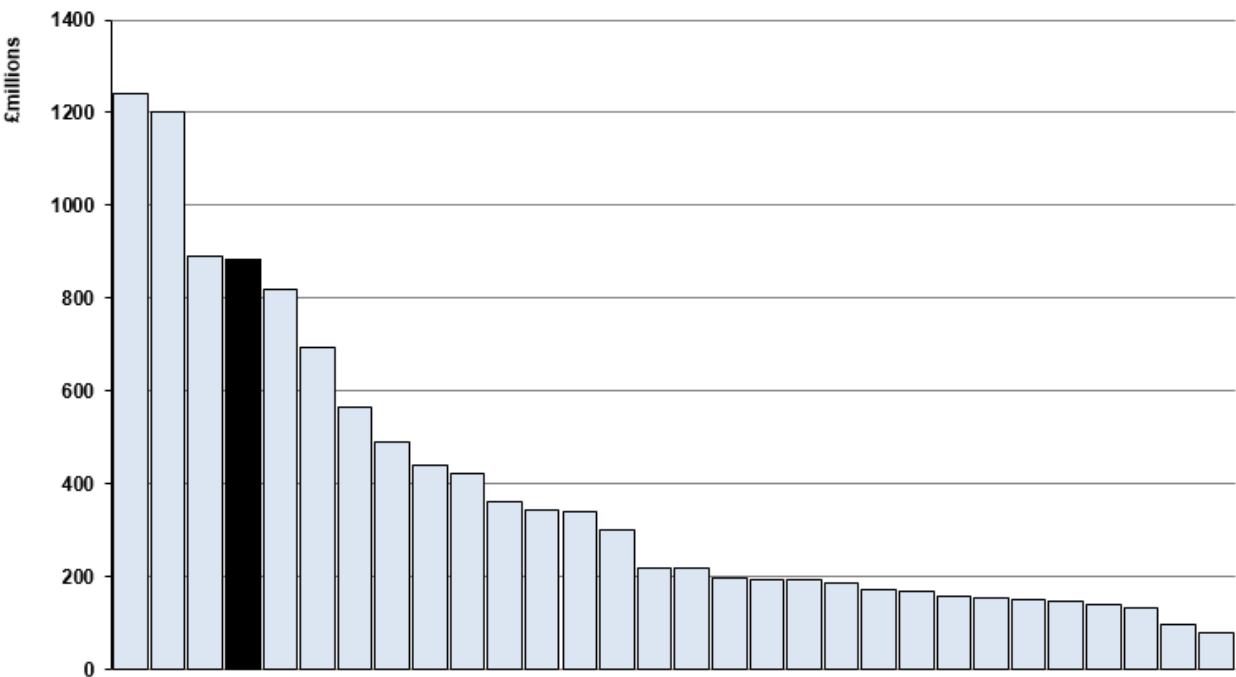
**71.** After the allocation of the surplus on Property Services, the HRA reported a surplus for the year of £1.373 million. When added to the amount brought forward from the prior year this gives an accumulated surplus of £11.624 million.

**72.** After write-off of bad debts the Council's HRA bad debt provision increased some £0.850 million to £7.045 million. The Council have budgeted to increase the 2018/19 bad debt provision (before write offs) by £5.658 million. Management have advised that the bulk of this increase relates to the continuing roll out of welfare reform and universal credit.

**Borrowing in 2017/18**

**73.** The Council's outstanding borrowings as at 31 March 2018 were £912.836 million. This is down £24.646 million on the previous year. Outside of the three large cities, South Lanarkshire had the highest long-term borrowing figure of any Scottish local authority, [exhibit 8](#). However, the borrowing level is broadly comparable to that of councils of a similar size. This position reflects the borrowing required to fund the Council's current capital programme, and other ongoing commitments, and is in line with the approved treasury management strategy. Given the current low level of interest rates we do not believe the level of borrowing presents any risk to the financial sustainability of the Council in the short-term.

**Exhibit 8**  
**Scottish council long term borrowing**



Source: Scottish local authority 2017/18 unaudited annual accounts

## Capital programme

**74.** How well the Council delivers capital projects has a direct impact on the lives of its citizens and plays a significant role in the economic wellbeing of the area and the achievement of Connect objectives.

### General services capital programme

**75.** The Council approved a general services capital programme, in February 2017, of £112.839 million. The programme was subsequently revised downwards to £78.242 million. Actual spend on the general services capital programme in 2017/18 was £55.487 million (49% of the original programme). The most significant elements of the 2017/18 programme, along with details of the main Connect objectives to which they contribute, are set out at [exhibit 9](#).

**76.** While we acknowledge that the risk of slippage is present in all capital programmes, slippage on delivery of capital projects should be of concern to members. Management have agreed to review the preparation and profiling of future annual capital programmes.

## Exhibit 9

### Highest value projects in 2017/18 general fund capital programme

Project	Value (£m)	Connect objective(s)
Social work residential care facilities	£11.296	Deliver better health and social care outcomes for all.
Primary schools modernisation	£36.952	Ensure schools and other places of learning are inspirational.
Roads investment plan	£12.000	Improve the road network, influence improvements in public transport and encourage active travel.
Street lighting improvement project	£8.098	Improve the road network, influence improvements in public transport and encourage active travel.
Glasgow City Region City Deal – roads and community growth area projects	£26.145	Improve the road network, influence improvements in public transport and encourage active travel. Support the local economy by providing the right conditions for inclusive growth.

Source: Capital Programme 2017/2018 to 2019/2020 report to South Lanarkshire Council (February 2017)

### Housing capital programme

**77.** The council approved its housing capital programme of £36.151 million for 2017/18 in February 2017. The programme was subsequently revised upwards to £40.581 million. Actual spend on the housing capital programme was £36.925 million (102% of the original programme).

# Part 3

## Financial sustainability



### Main judgements

**The Council has credible short term financial plans and adequate levels of reserves to respond to unexpected events. A long term financial strategy is also in place.**

**A review of earmarked general fund balances should be carried out to ensure they relate to specific commitments.**

**The Council is facing a challenging situation in the medium to long-term due to reduced real terms funding, rising costs and increasing demands on services.**

### Financial planning for 2018/19

**78.** In common with other public sector bodies, the Council faces complex challenges in maintaining a sustainable financial position into the future. Pressures arise from increasing costs, changing demographics and increased demands by the public and legislature.

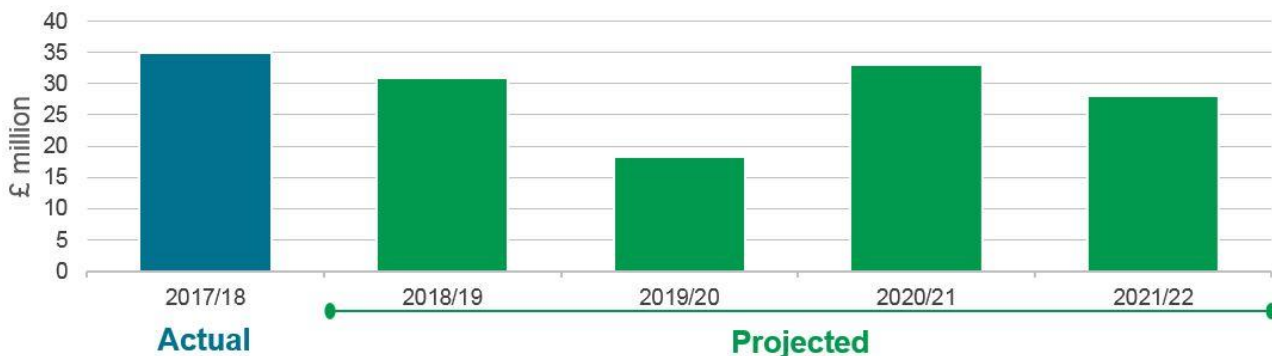
**79.** The new council plan, Connect 2017 to 2022, was approved in December 2017. In February 2018 the first revenue budget relating to this plan was approved. The 2018/19 revenue budget reflects the Scottish Government one-year financial settlement of £549.116 million, an increase in general revenue funding of £3.135 million over 2017/18. The Council's net expenditure to be funded from local taxation and central revenue support funding was £684.493 million. The 2018/19 budget was based on a 3% increase in council tax and included savings of £15.245 million.

**80.** The budget approved for 2018/19 and Financial Strategy 2019/2020-2021/2022 identified funding gaps in each of the next 4 years, [exhibit 10](#).

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.

## Exhibit 10

### Identified funding gaps 2017/18 – 2021/22



Source: South Lanarkshire Council 2017/18 approved budget (February 2017), South Lanarkshire Council 2018/19 approved budget (February 2018) and Financial Strategy 2019/2020 to 2022/23 (August 2018)

## Reserves

**81.** The CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 provides guidance on the establishment and maintenance of reserves. It does not prescribe level of reserves, but instead places the responsibility on the chief finance officer to advise the Council on the creation and level of reserves appropriate to its circumstances.

**82.** The bulletin states that reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as “earmarked” reserves (or earmarked portion of the general fund), to meet known or predicted requirements; earmarked reserves are shown separately but remain legally part of the General Fund.

**83.** The Council’s reserves strategy was included within the Revenue Budget Strategy – 2018/2019 which was approved by the Executive Committee in June 2017. It states the Council should ‘...consider allocating surplus funds to augment the Uncommitted General Fund levels marginally per annum when possible, with a view to increasing the reserve to approximately £13.5m over time (2% of revenue budget).’ At 31 March 2018 the uncommitted general fund balance was £13.043 million, [exhibit 11](#).

**84.** The overall level of usable reserves held by the Council increased by £14.599 million to £112.641 million, mainly attributable to the increase in the general fund reserve balance of £14.099 million, [exhibit 11](#).

## Exhibit 11

### Usable reserves

Reserve	31 March 2017 £' million	31 March 2018 £' million
General fund	£56.941	£71.040
Housing revenue account reserve	£10.251	£11.624
Repair and renewal fund	£5.910	£7.232
Capital fund	£21.607	£18.229
Insurance fund	£3.333	£4.516
<b>Total usable reserves</b>	<b>£98.042</b>	<b>£112.641</b>

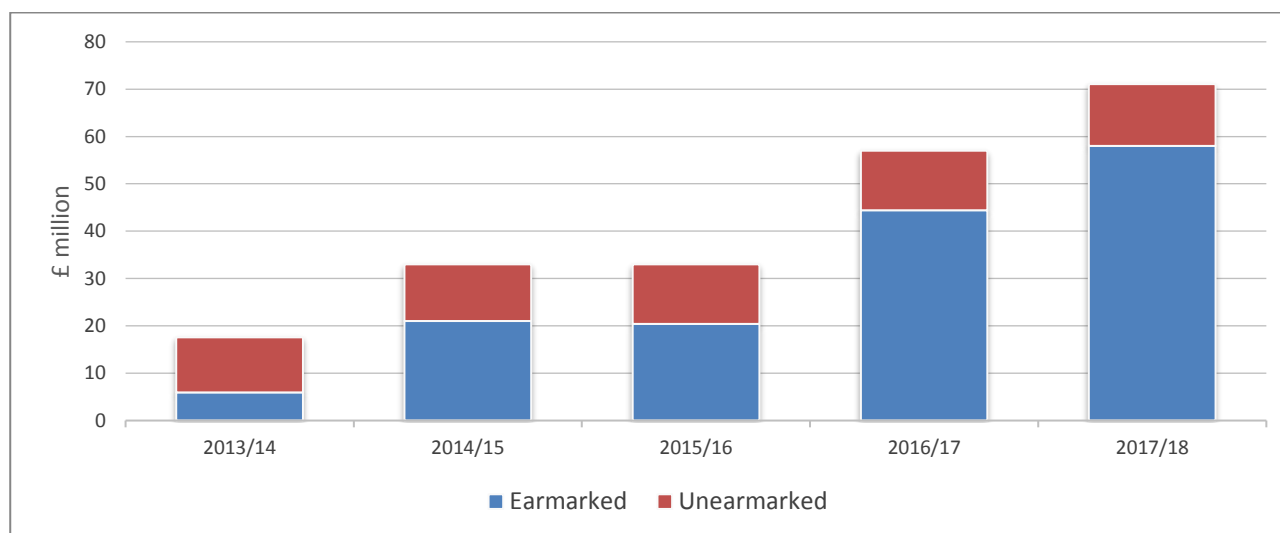
Source: South Lanarkshire Council 2017/18 Annual Accounts

### Earmarked reserves

**85.** Most of the general fund reserve is 'earmarked'. This element of usable reserves increased significantly in 2017/18 to £57.997 million (an increase of £13.599 million from £44.398 million at 31 March 2017), [exhibits 11 and 12](#).

## Exhibit 12

### Analysis of general fund reserve 2013/14 – 2017/18



Source: South Lanarkshire Council Annual Accounts 2013/14-2017/18

**86.** Last year, we were advised that officers expected £18.830 million of the £44.398 million earmarked at 31 March 2017 to be used during 2017/18. However, only £6.496 million of these amounts were actually required during the year.

**87.** Management has advised that £14.936 million of the £57.997 million earmarked at 31 March 2018 will be spent during 2018/19. A significant proportion, £36.958 million, is also identified for 'use in future budget strategies' to reduce the need for savings between 2018/19 and 2020/21.

**88.** It is not clear that all of the earmarked reserves relate to known or predicted expenditure. Members should be presented with sufficient information, including an explanation as to why services have not spent the approved budget within the financial year, to allow them to challenge budget holders where earmarking of balances are requested.

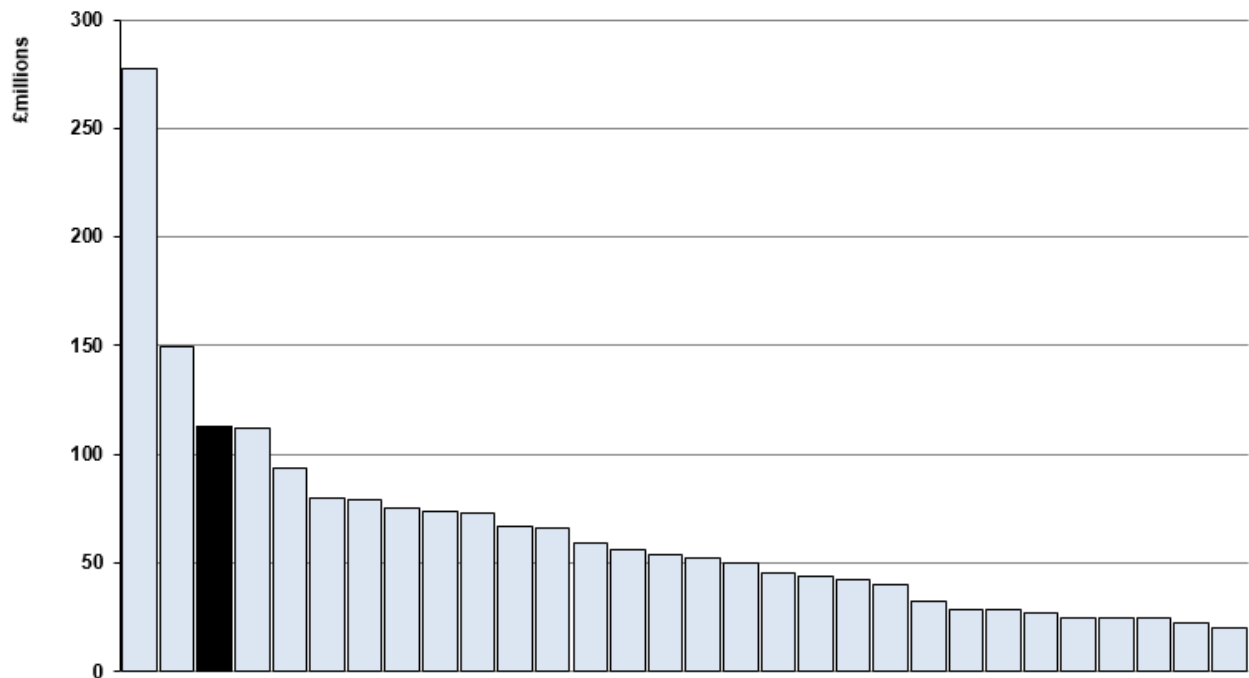
**89.** The Executive Director of Finance and Corporate Resources should oversee a challenge review of earmarked service balances and confirm or recommend reassignment of balances as uncommitted funds as appropriate.



[Recommendation 5 \(refer appendix 1, action plan\)](#)

## Exhibit 13

### Scottish councils' usable reserves at 31 March 2018



Source: Scottish councils' unaudited Annual Accounts 2017/18

**90.** [Exhibit 13](#) provides a comparison of usable reserves across Scottish councils. South Lanarkshire Council's usable reserve holdings are similar in size to comparable councils.

**91.** Overall, we conclude that the financial position is sustainable, currently and in the foreseeable future. However, rising demand, increasing costs and reduced central funding will continue to place a strain on the Council's capacity to deliver services at the current levels. The Council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium term financial plans in place.

## Long-term financial strategy

**92.** The Accounts Commission's April 2018 [Local government in Scotland: Challenges and performance](#) review highlighted the importance of medium to long term financial planning given the continuing pressures that councils face into the future. While it is acknowledged that councils face difficulties in predicting future financial settlements the Accounts Commission recommend that when future



Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding.

**93.** In 2016/17, we reported that the Council's financial strategy has historically been delivered in a series of short term financial plans and policies, typically having a span of one to three years. Accordingly, we recommended that medium to longer term financial planning should be further developed and refined. As part of its approval of the revenue budget strategy for 2018/19 in June 2017, the Executive Committee also requested that a medium / long term strategy was prepared.

**94.** The council's long-term financial strategy was approved at the August 2018 meeting of the Executive Committee. The strategy identifies budget pressures, future risks and uncertainties and projects budget gaps to 2028/29. Given that financial settlements are only made annually it is difficult for the council to plan with absolute certainty. To address this, the strategy includes scenario planning and a risk assessment of the likely impact of any changes in assumptions.

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### Good Practice

The council now has a long-term financial strategy that identifies budget pressures and future risks and uncertainties and includes scenario planning and sensitivity analysis.

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**95.** The long-term financial strategy highlights that the Council is facing a challenging situation in the medium to long-term due to reduced real terms funding, rising costs, and increase in demand, particularly for social care services. Taking all of these factors into consideration, the Council have identified that they could face funding gaps of up to £35 million (based on the worst case scenario) in each year from 2022/23 to 2028/29.

**96.** We expect the strategy to evolve over time to include a range of options to mitigate the longer-term funding gaps and respond to emerging budget pressures. As part of our work for the Best Value Assurance Review we will assess how well the financial strategy aligns with the longer-term capital programme, treasury management strategy, asset management plan and workforce plans to support the delivery of the Council's Connect objectives.

### European Union withdrawal

**97.** There remains significant uncertainty around the implications of EU withdrawal. Audit Scotland's view is that public sector bodies should be working to understand, assess and prepare for the impact of Brexit on operations in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas, overseen at an EU level, are likely to affect the activities of the organisation.

**98.** In November 2016 a paper titled 'BREXIT and the Implications for the Council's European Funded Projects' was taken to the Executive Committee for noting. This set out that the Council had been successful in securing EU funding totalling £12.781 million for projects which would run from 2016 to 2020. It also detailed that 26.6 Full Time Equivalent Council posts (across the years 2016/2017 to 2020/2021) were funded from the EU. Members were advised that The Chancellor

had provided an assurance that all current projects would be funded to the point at which the United Kingdom left the EU.

**99.** As we move closer to the “exit day” on 29 March 2019, there is likely to be more information available on the likely settlement conditions. The Council should ensure it closely monitors developments and has plans in place to mitigate any emerging operational risks.

## Glasgow City Region City Deal

**100.** The Glasgow City Region City Deal will bring over £1 billion of investment to the area. The availability of City Deal funding has enabled South Lanarkshire Council to bring forward the following capital projects:

- **Cathkin Relief Road: New build of £21 million single-carriageway road**

This is complete and opened to traffic on 24 February 2017. Focus is now on the delivery of the remaining complimentary works.

- **Stewartfield Way: £63 million upgrade to dual both carriageways and improve traffic flow**

The Strategic Business Case was approved by Cabinet on 18 August 2015. An update paper was presented to the City Deal Chief Executive's Group in June 2018, confirming that the Cumulative Assessment exercise is now complete, which will help determine future transport needs for the area. The main infrastructure works are expected to commence in Summer 2023, with completion anticipated in Spring 2025.

- **Greenhills Road: £23 million project to dual two sections of the road and improve junctions and bus infrastructure**

The Outline Business Case for the project was approved by the City Deal Cabinet on 18 October 2016. The Full Business Case has now been submitted to the Project Management Office for review and submission to Cabinet for approval.

- **Community growth areas: £62 million scheme delivering a number of education, transport and community infrastructure projects**

The Strategic Business Case for the Community Growth Areas (CGAs) was approved by Cabinet on 18 August 2015, with the Outline Business Case being approved on 15 December 2015. The Community Growth Areas project has been separated into 4 locality areas: Newton, Hamilton, Larkhall and East Kilbride. Within each area, a number of sub-projects are being progressed within the overall budget allocation for the CGAs.

**101.** These projects are funded through 86% City Deal capital grant and 14% member authority contributions with the City Deal capital grant expected to be received retrospectively over a period of up to 30 years.

**102.** Up to the end of 2017/18 the Council had incurred expenditure of £22.961 million on these projects and had received grant allocation of £21.825 million (95% of spend). This is above the 86% level of funding due from City Deal and reflects both the availability of funding and the good progress made by South Lanarkshire Council in the early years of the programme in comparison to other member authorities.

# Part 4

## Governance and transparency



### Main Judgements

The Council has effective governance arrangements in place.

The arrangements for scrutinising performance have been strengthened by the Council delegating powers to the Risk and Audit Scrutiny Committee.

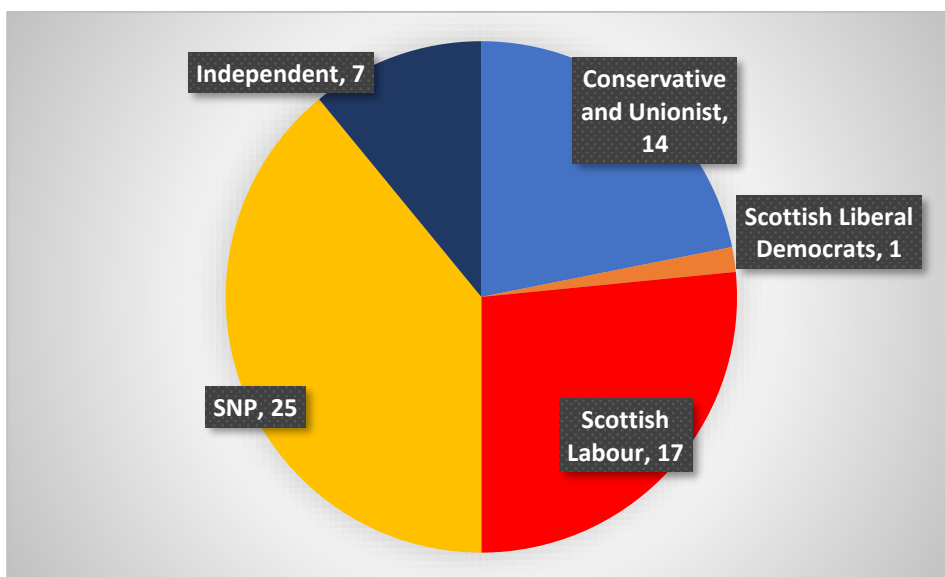
The Council conducts its business in an open and transparent manner but there is scope to identify opportunities to increase citizen participation.

### Governance arrangements

**103.** Following the local government elections in May 2017, the SNP formed a minority administration, [exhibit 14](#). Previous administrations had been Labour since reorganisation in 1996.

### Exhibit 14

#### South Lanarkshire Council political makeup



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.

Source: South Lanarkshire Council website

**104.** The decision-making structure of the Council was approved at the first meeting of the new Council in May 2017. The decision-making structure approved was largely unchanged. All committees and forums report to the Council through an Executive Committee, [exhibit 15](#). The decision-making structure is a matter for members, and in all councils it should be kept under review to ensure that it serves the needs of both members and citizens.

### Good Practice

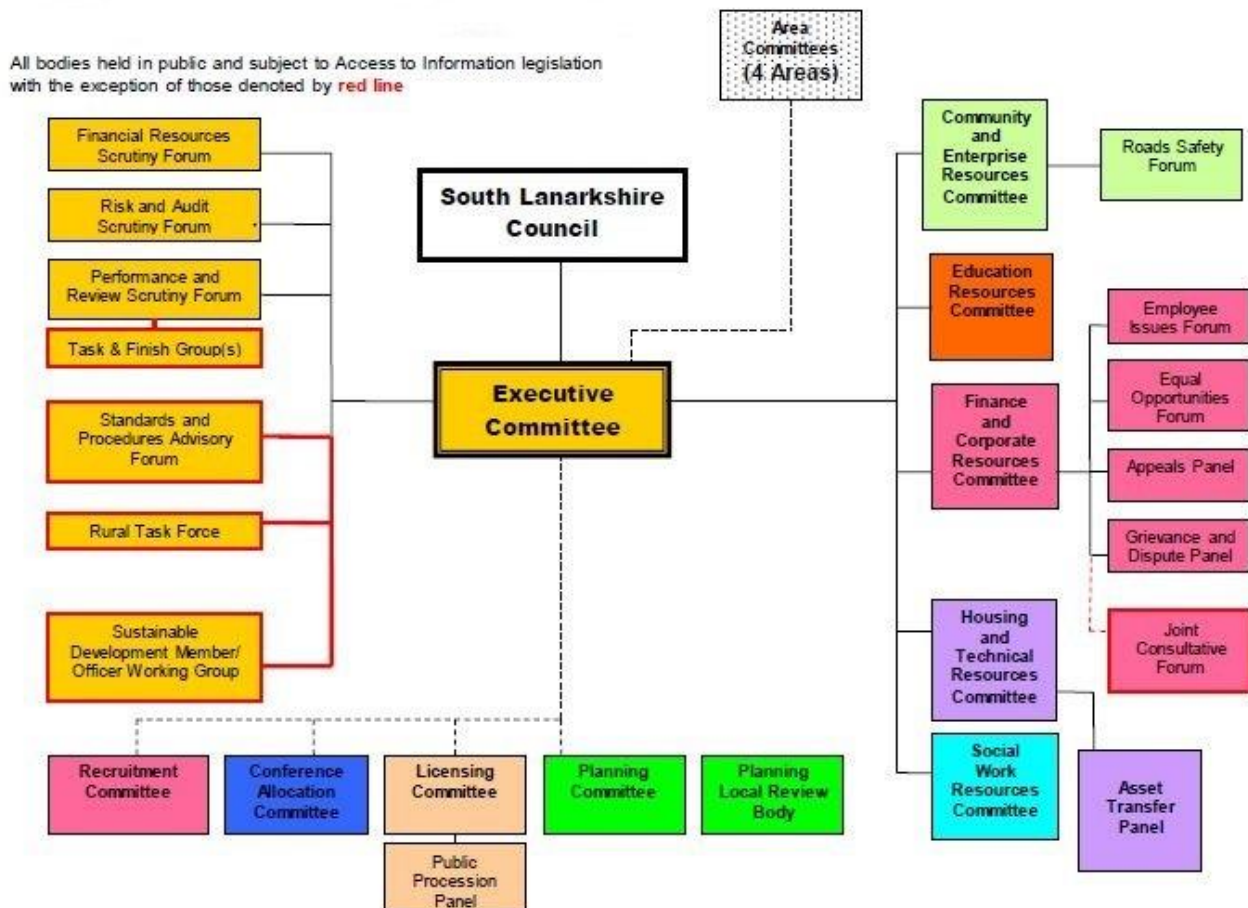
In June 2018 meeting the Council approved the establishment of a Petitions Committee with the stated intention of improving the ability of local communities / residents to engage with the Council.

**105.** The remit of the Petitions Committee is to: consider and take action as appropriate on matters raised through the petitions process, and, where appropriate, to refer any item of business raised through the public petitions process to a relevant Council committee. The Council intends to undertake work to raise public awareness of the committee through the Council's website, local newspapers, and digital platforms such as Facebook and Twitter.

**106.** How effectively the council considers and responds to community views will be considered as part of our Best Value audit work planned for 2018/19.

## Exhibit 15

### South Lanarkshire Council decision-making structure



## Scrutiny arrangements

**107.** The Accounts Commission's November 2016 publication *How Councils Work: Roles and working relationships in councils - Are you still getting it right?* states that:

*“Good governance involves councils being accountable and accessible to the communities they serve. Councils must be transparent about the decisions they make and the quality of the services they provide. The council’s leadership must be scrutinised and held to account for its plans and performance. This requires a culture that recognises the importance of scrutiny and is open to candid discussions about risks. In broad terms, scrutiny questions whether councils are doing the right thing and questions policy proposals and the performance and quality of services. Councillors’ involvement in discussion and debate in the decision-making process is an important element of good policy making and effective scrutiny.”*

**108.** The Council's scrutiny arrangements are as follows:

- Five resource directorate committees are chaired by SNP councillors. Each committee is remitted to decide on all the operational issues relating to the services within that resource directorate, including operational finance.
- Financial Resources Scrutiny Forum (chaired by Scottish Labour Party Councillor) is remitted to scrutinise the Council's revenue budgets, the capital programme and trading services.
- Performance and Review Scrutiny Forum (chaired by the Council Leader, SNP) is remitted to oversee the Council's approach to Best Value.
- Risk and Audit Scrutiny Forum (chaired by a Scottish Conservative and Unionist Councillor).

**109.** The Annual Audit Report is a unique output from the audit, in that it is addressed to elected members. It is an independent review and assessment of aspects of the council's activities, including judgements on financial management and sustainability, governance and Best Value. It is an important document written to assist members in scrutinising and challenging performance. It is our expectation is that the Risk and Audit Scrutiny committee discusses the annual audit report following which it is submitted to a meeting of the full Council.

## Risk and Audit Scrutiny Forum (RASf)

**110.** In our 2016/17 Annual Audit Report we expressed the view that the limited terms of reference of the Council's RASf dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance.

**111.** In June 2018 the Council approved the reconstitution of the Risk and Audit Scrutiny Forum as a formal committee of the Council. The Risk and Audit Scrutiny Committee (RASC) has been delegated decision-making powers, including the power to approve the internal audit strategy and annual plan, the annual governance statement and annual accounts. The Committee's remit also includes interaction with and consideration of reports from the external auditors.

**112.** In our 2016/17 Annual Audit Report we also commented that, *“to be able to contribute meaningfully to the work of an audit committee, members need to understand their role and responsibilities.”* Accordingly, we recommended that the Council prepare an “audit committee handbook” to articulate the principles underlying the committee's role and provide guidance to help members gain a better understanding of the processes and practices that create an effective scrutiny regime.

**113.** Management have advised that an audit committee handbook for the new RASC has been prepared for distribution to committee members and awareness training sessions to support members in performing their enhanced role will also be provided.

## Internal audit

**114.** The internal audit service, in any organisation, is an important element of internal control. It provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

### Reliance on internal audit and compliance with Public Sector Internal Audit Standards

**115.** Audit Scotland's Code of Audit Practice (the Code) requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. To avoid duplication, we place reliance on internal audit work where possible.

**116.** We found internal audit to be operating effectively, therefore we planned to place reliance on their work in a number of areas for both our financial statements audit and our wider responsibilities in relation to governance and performance.

**117.** All public sector internal audit services are obliged to adopt Public Sector Internal Audit Standards (PSIAS). During 2017, as part of the Council's external quality control arrangements, an external chief internal auditor undertook a review of the Internal Audit function's compliance with (PSIAS). The findings from the review were reported to the Risk and Audit Scrutiny Forum in March 2018 and commented positively on the operation of the Council's Internal Audit function and confirmed that it conforms to PSIAS requirements.

### Review of internal audit accounts payable work

**118.** During the year the internal audit team undertook a comprehensive review of the operation of the controls over the accounts payable function. The payables function is responsible for ensuring that all supplier invoices are approved, processed, and paid, following receipt of the related goods or services. Internal audit concluded that no weaknesses in the payables control environment were present, that could result in a material misstatement in the information produced from the system

**119.** We reviewed this work, with reference to International Standard on Auditing 610 – Using the work of internal auditors (ISA 610), to confirm that we could place reliance on the system controls for the 2017/18 financial statements audit. We concluded that the work had been properly planned, performed, supervised, reviewed, documented and concluded upon. We therefore placed reliance on the conclusions from their work on the accounts payable function for the 2017/18 financial statements audit.

### Annual Assurance Report

**120.** Internal audit's annual plan is determined by the requirement to deliver a programme of work that will inform the annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements.

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### Good Practice

Internal audit has aligned the completion of its annual work programme with the financial year-end to support the timely production of the Annual Assurance Report.

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**121.** During 2017/18, internal audit revised their audit year to align the completion of their plan with the 31 March financial year-end. This required acceleration of the



annual work programme, which had originally been scheduled for completion by the end of April 2018. This was done to enable the Internal Audit Assurance report to be considered by the Risk and Audit Scrutiny Forum at the same meeting as the draft Annual Governance Statement. Going forward internal audit will produce an annual plan covering the period April to March each year.

**122.** PSIAS require the provision of an annual internal audit opinion, to inform the Council's annual governance statement. The Audit and Compliance Manager issued her Annual Assurance Report in April 2018 which included the opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2018.

## Systems of internal control

**123.** As part of our interim audit work we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the Council's financial statements. Our findings, which were reported to the Risk and Audit Scrutiny Forum in June 2018, included recommendations to enhance the existing control system.

**124.** As a consequence of the control weaknesses reported, we carried out additional audit work in some areas to allow us to obtain the necessary assurances for the audit of the 2017/18 financial statements. Specifically, we extended our substantive testing of journals and verified a sample of employee data. This testing did not identify any errors or other issues that would impact on the reliability of the information within the financial statements.

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### Good Practice

The Council took a proactive approach in responding to the recommendations included in the Accounts Commission's *2016/17 audit of Dundee City Council: Report on a significant fraud* (March 2018). The recommendations were considered by the Head of IT and Head of Finance (Strategy) and, although there were controls in place that would prevent a similar fraud occurring at South Lanarkshire Council, changes were made to further strengthen controls in place around IT staff access to financial systems.

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## Transparency

**125.** Transparency means that the public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets. Transparency is a process and good governance leads to an approach designed to increase transparency, [exhibit 16](#).

**126.** A comprehensive range of information on how the Council operates is available on its website. Information available includes: performance information, corporate plans and policies, how to make complaints, access to benefits and money advice, and good customer service contact information. Some areas are in the process of being updated. The Council has also launched a Facebook page to provide news and information to local residents.

## Exhibit 16

### Transparency model



Source: Audit Scotland

**127.** The Society of Information Technology Management (SOCITM) is a professional body representing people involved in the leadership and management of digital services delivered for public benefit. Through its Better Connected vehicle, it assesses council websites annually and awards a star rating, the highest being a four star rating. South Lanarkshire achieved a three star rating for 2017/18. Generally, the Council's ratings were in advance of the average rating. The Council will continue to improve the information content, usability and accessibility of its website in delivering information on all areas of its activities to all citizens.

**128.** There is evidence from several sources which demonstrates South Lanarkshire Council's commitment to transparency:

- members of the public can attend meetings of the full Council and its committees
- minutes of meetings and supporting papers are readily available on the Council's website
- the Council holds public consultations (both web based and face-to-face) on a wide range of issues.

**129.** Overall, we concluded that the Council conducts its business in an open and transparent manner. However, in aiming for continuous improvement, we believe that there is scope to shift the council further to the right in the model at [exhibit 16](#). The Council should consider performing a review of its openness and transparency against best practice and the Scottish Government's values of Open Government, which aim to foster openness, transparency and citizen participation.

### Following the public pound

**130.** Councils are responsible for ensuring that public funds provided to external organisations, whether for direct service delivery or community projects, are used properly.



**131.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound. The principles are that councils:

- have a clear purpose in funding an external body
- set out a suitable financial regime
- make clear their arrangements for monitoring the external body's financial and service performance, and for stipulating any required access to documentation
- consider very carefully the question of representation on the board of an external body
- establish limits to involvement in the external body.

**132.** Budget holders need to be aware of their responsibilities and be held accountable. We reported last year that the Council had no consistent guidance on reporting and monitoring arrangements to provide assurance that funding to external bodies is being properly used.

**133.** During 2017/18 the Council prepared new guidance on 'Funding External Bodies and Following the Public Pound'. This highlights the importance of ensuring that robust arrangements are in place for funding external bodies and following the public pound, including the requirement for officers to keep adequate records when issuing grants to all external bodies.

## National Fraud Initiative in Scotland

**134.** The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

### Exhibit 17

#### National Fraud Initiative

Total number of matches



12,147

Number selected for investigation



3,886

Completed/closed investigations



3,487

Source: NFI website and Internal Audit Fraud Statistics and National Fraud Initiative Six Monthly Update report to Risk and Audit Scrutiny Forum (March 2018)

**135.** The 2016 National Fraud Initiative (NFI) exercise commenced in October 2016 and a summary of the NFI matches and investigations undertaken by the Council up to the end of September 2017 is shown at [exhibit 17](#).

**136.** The Council concluded the majority of investigations by the internal target date of 30 September 2017. The delay in completing the investigation of the remaining 399 cases was attributable to the Council waiting on information from

external parties to conclude tenant investigations and a lack of staff resources being available to carry out the blue badge (disabled parking badge) investigations. The results of these final NFI investigations will be reported to the Risk and Audit Scrutiny Committee in due course.

**137.** The NFI investigations completed did not identify any confirmed frauds but did identify seven errors valued at £0.161 million relating to housing benefit, payroll and creditor matches. The Council was already aware of the payroll overpayment and five creditor overpayments (totalling £0.153m) in advance of receiving the NFI data matches and had recovered these amounts. Steps are being taken to recover the housing benefit overpayment in line with the Council's debt recovery procedures.

**138.** Through the NFI process, 182 blue badge errors were also identified. These resulted from delays in updating systems to record deceased persons. Although there is no direct financial consequence to the Council of these errors, any misuse of blue badges could impact on parking revenues and the availability of accessible parking for genuine blue badge holders.

**139.** Overall, we have concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## **Standards of conduct for prevention and detection of fraud and error**

**140.** The Council recently refreshed their Code of Conduct for Employees (approved March 2018) and the policy on Fraud and Whistleblowing for Third Parties (approved June 2018) to ensure these reflected current practices and requirements. We have reviewed these documents and the Council's arrangements for the prevention and detection of fraud and irregularities and concluded they are satisfactory.

## **Correspondence referred to the auditor**

**141.** During the year we received three pieces of correspondence covering issues related to South Lanarkshire Council. We considered the issues raised and the evidence provided and concluded that there were no implications for our Independent Auditor's Report.

## **Cyber security**

**142.** Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by the "WannaCry" ransomware attack on the NHS in 2017/18. In mid-April US and UK intelligence agencies issued a joint technical alert describing a global assault on routers, switches, firewalls, and network intrusion detection hardware by Russian state-sponsored cyber hackers.

**143.** The persistent risk from new threats and vulnerabilities could result in unauthorised access and subsequent damage or interruption to IT services. Management have advised that it maintains an awareness of such risks by running internal and external vulnerability scans. In addition the Council is a member of the National Cyber Security Centre's Cybersecurity Information Sharing Partnership (CiSP), which is a valuable source of intelligence on emerging cyber threats.

**144.** The Council has committed to fully implementing the Scottish Government's [Public Sector Action Plan on Cyber Resilience](#) by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation. Cyber Essentials is a scheme sponsored by the National Cyber Security Centre that aims to guard against the most common cyber threats and demonstrate commitment to cyber security. The Council aims to be in the position to achieve the Cyber Essentials Plus accreditation by October 2018.

## Public Services Network (PSN)

**145.** Like the Internet, the Public Services Network (PSN) is made up of different networks which are connected together. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards with which all users, suppliers and customers must comply. These standards, the PSN Codes and Conditions, are administered by the Cabinet Office's Digital Service.

**146.** Each year the Council submits an application for continuing Public Services Network (PSN) accreditation. A "PSN connection compliance certificate" was issued to the Council by the Cabinet Office in June 2018.

## General Data Protection Regulation

**147.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. Superseding the Data Protection Act 1998, the regulation introduced new and significantly changed data protection concepts pertaining to the processing of personally identifiable information.

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### Good Practice

The Council has an Information Governance Board which has responsibility for information management policy, training and practice within the Council. It is chaired by the Council's Monitoring Officer and reports to the Executive Director (Finance and Corporate Resources) who is also the Senior Information Risk Officer (SIRO). The board reports its progress to the Council's Corporate Management Team. It has overseen the development of the new Information Strategy 2018 to 2022 and Improvement Action Plan.

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**148.** Failure to comply with new GDPR data handling arrangements and personal data breaches could result in the Council incurring substantial fines. Management have advised that the Council has put in place arrangements to make it compliant with the requirements of the new regulations. Management should review the arrangements in place for compliance with GDPR including staff and public awareness.

## Health and Social Care Integration

**149.** The South Lanarkshire Integrated Joint Board (IJB) was formally established in September 2015. The IJB became fully operational on 1 April 2016 when it began its strategic oversight of the delivery health and social care services for the residents of South Lanarkshire.

**150.** The IJB allocates the resources it receives from the Council and NHS Lanarkshire in line with its Strategic Commissioning Plan. The IJB set a breakeven budget for 2017/18. This was based on expenditure of £470.06 million comprising contributions of £361.15 million from NHS Lanarkshire and £108.92 million from the Council. The IJB reported an underspend of £2.159m at 31 March 2018 which, added to a £6.119 million reserve brought forward, increased its reserves to £8.278 million.

**151.** The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report, setting out the auditor's judgements and conclusions will be published in due course. The financial transactions of the IJB have been consolidated into the Council's group accounts.

### Health and Social Care Integration performance audit

**152.** Audit Scotland, as part of a series of reports, has undertaken a national study to examine the impact of the integration of health and social care services. South

Lanarkshire IJB was visited as part of the fieldwork for the study. The report is due to be published in November 2018.

### **Local scrutiny plan**

**153.** The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity at the Council during 2018/19. The plan is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of all of the scrutiny bodies who engage with the Council. The shared risk assessment process draws on a range of evidence with the aim of determining the scrutiny activity required and focusing this in the most proportionate way. The 2018/19 LSP for the Council was presented to the June meeting of the Risk and Audit Scrutiny Forum. No scrutiny risks requiring additional scrutiny or audit work in 2018/19 were identified from the shared risk assessment.

# Part 5

## Best Value



### Main judgements

**The Council demonstrates improved performance over a range of services, for example Education. However, there are still some areas which require attention including service satisfaction.**

**Resource directorate plans align with the Connect plan and clearly identify the objectives that they can contribute towards.**

**The Council should review their internal reporting to ensure elected members are being provided with a clear picture of performance against the Connect objectives.**

### Best Value

**154.** The Local Government in Scotland Act 2003 places a duty on local authorities to make arrangements which secure Best Value. The Accounts Commission has a duty to secure the audit of Best Value in local authorities. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions are reported each year through the Annual Audit Report. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once during the five-year audit appointment for each council. The BVAR for South Lanarkshire Council is planned for publication in 2019, with fieldwork due to commence in October 2018. The scope for the BVAR has been agreed and will cover:

- The council's vision and strategic direction, including how well the leadership of the council works together to deliver priorities which reflect the needs of the community.
- The effectiveness of the governance, decision-making and scrutiny arrangements.
- How effectively the council's self assessment framework drive continuous improvement in service priorities.
- How the council plans its use of resources including asset management, financial planning and workforce planning to support the delivery of its priorities.
- How the council delivers services through partnership and collaborative working, including progress with health and social care integration.
- Community engagement and responsiveness and how this impacts on the council's priorities and activities.
- An overall assessment of outcomes/performance and the reporting of these, including the council's public performance reporting.

Best Value is about using resources effectively and continuous improvement in the delivery of services to citizens.

**155.** We review how effectively the Council demonstrates Best Value by considering their arrangements to achieve continuous improvement against the four audit dimensions referred to at [exhibit 1](#). This section of the report reflects on this and more specific findings from the five-year audit approach.

**156.** As part of our BVAR audit we will review the systems in place to monitor performance and drive continuous improvement including consideration of the effectiveness of the Council's performance management framework. Areas covered will include:

- self-evaluation
- benchmarking data
- feedback from customers and employees
- risks for each resource directorate
- challenges and remaining areas for improvement.

**157.** In preparation for the full BVAR review, this year we considered the following aspects of the Council's performance management framework:

- internal performance reporting against the Council plan
- performance against the Local Government Benchmarking Framework.

## Connect 2017 to 2022

**158.** The refreshed Council strategic plan, Connect 2017 to 2022, was approved by the Council on 6 December 2017. This is the third Connect, following earlier Council Plans published in 2007 and 2012.

**159.** The Connect plan sets out South Lanarkshire Council's vision: 'to improve the quality of life of everyone in South Lanarkshire', and the six values that are considered fundamental to the way the Council operates.

**160.** The new plan also redefined the Council's five main ambitions which it links to 11 objectives, and the wider work of the Community Planning Partnership, [exhibit 18](#).

## Public consultation on new Council plan

**161.** The Council plan was informed by consultation with stakeholders by way of a survey promoted through the Council website and the Reporter (an annual publication produced by the Council and delivered to all households, providing residents with information on services and service developments).

**162.** The response to the survey was disappointing with 297 responses received and only 6 completed by those aged 18-24 and 15 from over-65s. We also noted that 24% of the responses received came from individuals who actually live outside South Lanarkshire.

**163.** Management accepted that the response was disappointing but advised that the Council does have in place arrangements which usually result in better engagement with younger people. In support of this, they provided the following examples:

- Education Resources conducts a Youth Survey, most recently between August and November 2017.

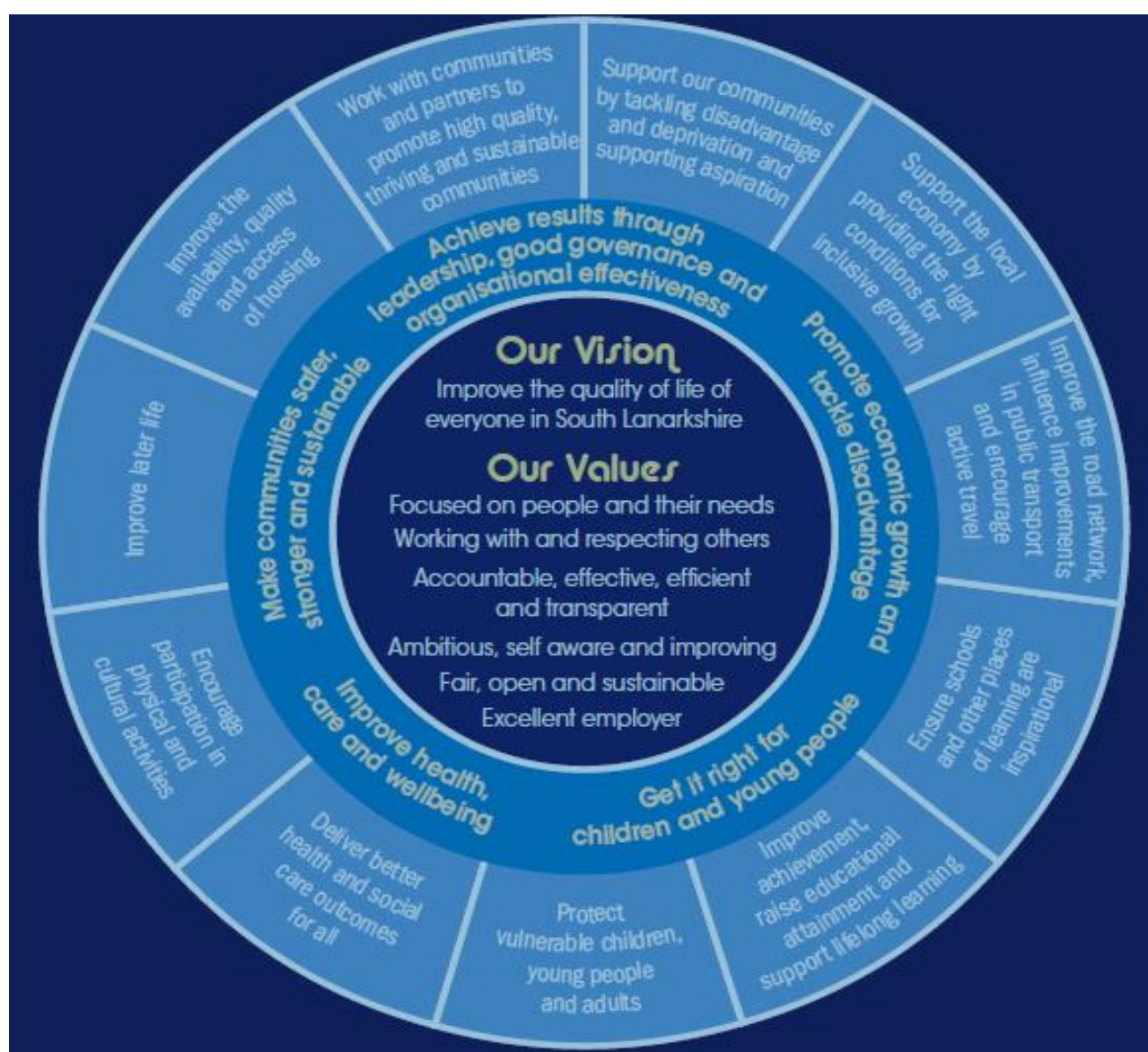


- The recent Neighbourhood Plan surveys used an independent community organisation to carry out survey work on the Council's behalf.
- In the annual budget consultation there is a session specifically with the Youth Council.

**164.** At its June 2018 meeting the Council's Executive Committee approved a new approach to community participation and empowerment, including the establishment of a Community Participation and Empowerment Team. The Council's response to community engagement and consultation will be considered as part of the BVAR.

## Exhibit 18

### Connect 2017 to 2022



Source: South Lanarkshire Council

## Alignment of resource directorate plans with Connect

**165.** Each of the Council's five resource directorates are required to produce an annual resource plan. These plans provide an overview of the resource directorate's main areas of activity, summarise service achievements in the previous year and set out plans for maintaining and improving services in the year ahead.

**166.** The resource plans provide the link to the 11 Connect objectives by identifying which objectives are relevant to that resource directorate and what "actions" are being taken to achieve them [exhibit 19](#). A range of "resource measures" and "corporate measures" has been developed for the "actions" to enable progress and delivery to be monitored.

## Exhibit 19

### Summary of 2017/18 Resource Plan objectives, actions and measures

Resource directorate	Objectives	Actions	Resource measures	Corporate measures
Community and Enterprise	7	59	154	74
Education	7	81	179	33
Finance and Corporate	1	60	165	44
Housing and Technical	7	45	104	32
Social Work	5	65	112	31
<b>Total</b>	<b>N/A</b>	<b>310</b>	<b>714</b>	<b>214*</b>

\* 214 corporate measures were originally identified in the 2017/18 resource plans. However, following an internal peer review some revisions were made to the corporate measures identified and 219 are now reported to the Executive Committee.

Source: 2017/18 Resource Plans

**167.** Our review of the five resource plans prepared for 2017/18 confirmed that each identified the Connect objectives relevant to that resource directorate and actions required to contribute towards the objectives.

## Internal performance reporting against Connect

**168.** IMPROVe is the Council's system for managing and reporting performance. IMPROVe progress reports use a traffic light grading system to show the status of each reported measure, [exhibit 20](#). The system is used to track progress against the objectives set out in Connect and the actions identified within the individual resource plans.

**169.** Performance against all of the resource measures is reported the appropriate resource committees, and performance against the corporate measures is also reported to the Executive Committee. IMPROVe performance reports are taken to committee after quarter 2 (end of September) and quarter 4 (end of March) each year. The progress reports to the Executive Committee include a summary of performance against the measures for each Connect objective, along with details of the main achievements for that objective.

**170.** As part of the members induction training, following the May 2017 elections, the Council delivered a session on the performance management and reporting arrangements. This session covered: what is reported and why, how to "read" the



performance reports, the authority's Public Performance Reporting (PPR) arrangements, and how to use the Local Government Benchmarking Framework data. Disappointingly, only 15 of the 64 elected members attended, however, all attendees provided positive feedback on the relevance and quality of the session.

## Exhibit 20

### IMPROVe traffic light grading system

Status	Definition
Green	The timescale or target has been met as per expectations.
Amber	There has been minor slippage against timescale or minor shortfall against target.
Red	There has been major slippage against timescale against timescale or major shortfall against target.
Report later	For some measures, the statistics are not yet available to allow us to say whether the target has been reached or not. These will be reported when available.
Contextual	A small number of measures are included for 'information only', to set performance information in context.

Source: Council Plan Connect 2017 to 2022: Quarter 4 Progress Report 2017/2018 to Executive Committee (June 2018)

**171.** The progress report taken to the Executive Committee in June identified that, at the end of quarter 4 2017/18, 200 (91%) of the 219 measures had been graded as green, [exhibit 21](#).

**172.** We reviewed each of the 200 measures assessed as 'Green'. We found that

- There were a number of instances where it was not clear from the information reported how the timescale/target had been met, or under what circumstances those measures could be assessed as not being met.
- Many of the targets set are lower than the performance level already achieved in prior years.

**173.** We conclude that this limits the usefulness of the progress reports in demonstrating that resource directorates are delivering the required actions and thus positively contributing to the Connect objectives and the statutory requirement of Best Value to deliver continuous improvement.

**174.** In February 2017, Internal Audit issued a report on their review of the IMPROVe performance information reported against the previous Connect 2012-2017 plan. The report concluded that adequate controls were in place to monitor attainment of the Council's strategic objectives but also noted areas for improvement, including:

- Defining actions, anticipated outcomes, and targets better, in order to facilitate better tracking and 'evidence' of achievement.
- Focus on volume and type of measures in place.
- Catch-up reporting for any measures not delivered at the end of a reporting year and consistent application traffic light status.
- Scrutiny of major changes of status between reporting periods.

**175.** Based on our own review of the Quarter 4 Progress Report 2017/2018 to the June Executive Committee, we believe these findings still apply to the IMPROVe performance information reported against the new Connect plan.

## Exhibit 21

Connect performance reported at end of Quarter 4 2017/18

Connect objective / Theme	Green	Amber	Red	Report later	Total
Improve later life	8	0	0	2	10
Protect vulnerable children, young people and adults	14	0	0	0	14
Deliver better health and social care outcomes for all	7	2	0	0	9
Improve the availability, quality and access to housing	10	0	0	0	10
Improve the road network, influence improvements in public transport and encourage active travel	13	1	0	0	14
Work with communities and partners to promote high quality, thriving and sustainable communities	43	3	0	3	49
Support the local economy by providing the right conditions for inclusive growth	16	1	0	0	17
Support our communities by tackling disadvantage and deprivation, and supporting aspiration	9	0	0	0	9
Improve achievement, raise educational attainment and support lifelong learning	27	0	0	0	27
Ensure schools and other places of learning are inspirational	9	0	0	1	10
Encourage participation in physical and cultural activities to improve health	4	2	0	0	6
Delivering the plan and achieving best value	40	1	0	3	44
	200	10	0	9	219

Source: Council Plan Connect 2017 to 2022: Quarter 4 Progress Report 2017/2018 to Executive Committee (June 2018)

**176.** The Council should review their internal reporting to ensure elected members are being provided with a clear picture of performance against the Connect objectives.



[Recommendation 6 \(refer appendix 1, action plan\)](#)

## Statutory performance indicators (SPIs)

**177.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**178.** For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**179.** The following paragraphs set out our observations and conclusions on the Council's compliance with the Accounts Commission direction.

## Annual Performance Report

**180.** In our 2016/17 report we commented that while the Council's Annual Performance Report included a lot of useful information for stakeholders, there was a danger that the length (88 pages) and format of the report (mainly text) may obscure the actual messages being delivered. We therefore recommended that the Council should consider reviewing the structure of the report to make it more readable and increase its impact.

**181.** The Council has now replaced its Annual Performance Report with a new Annual Performance Spotlights approach. Management have advised that this will be presented to the Corporate Management Team in August, and the Executive Committee in September, before being published on the Council's website.

**182.** We will review this new approach to public performance reporting as part of our BVAR.

## Local Government Benchmarking Framework

**183.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**184.** The framework enables a council to compare its performance against the Scottish average and other individual local authorities. The most recent [National Benchmarking Overview Report 2016/17](#) by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. A number of the LGBF indicators are also used as resource measures, set out at [exhibit 19](#), including the academic attainment indicators which are used by the Education resource directorate to monitor performance.

## Relative performance against other Scottish councils

**185.** [Exhibit 22](#) shows the Council's relative performance compared to all other Scottish councils. Although there are over 70 performance indicators in the LGBF, this analysis is based on 35 single-year indicators measuring performance rather than cost<sup>1</sup>. Some ambiguity may exist in the judgement of whether an increased

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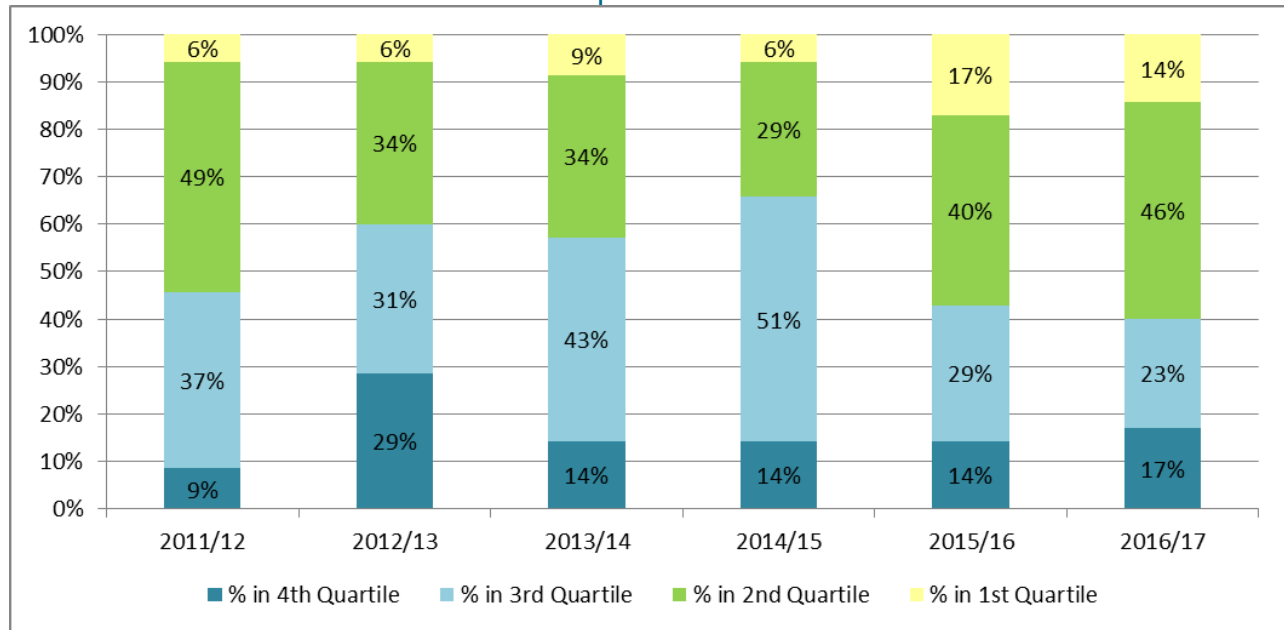
<sup>1</sup> The full range of indicators are available on the Improvement Service website: [www.improvementservice.org.uk/benchmarking/](http://www.improvementservice.org.uk/benchmarking/)

cost is good or bad, therefore the focus of our analysis is on outcomes-based indicators where relative performance can be categorically measured.

**186.** This analysis of the Council's relative performance identifies that the number of indicators in the lowest quartile has increased since 2011/12 (from 9 per cent to 17 per cent). However, the number of indicators in the top quartile has also increased (from 6 per cent to 14 per cent) over the last 6 years. It also clear that, after a dip in performance in 2014/15, the Council's performance has shown a considerable improvement over the last 2 years.

## Exhibit 22

### South Lanarkshire Council LGBF relative performance 2011/12 to 2016/17



Note: Measuring council performance involves considering how all councils are performing, from lowest to highest for each indicator. From this it is possible to see how one council compares to all councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile contains the poorest performing councils.

Source: Audit Scotland; and Local Government Benchmarking Framework, Improvement Service, 2016/17

## Performance against a selection of indicators

**187.** The Accounts Commission's report, [Local Government in Scotland: Performance and Challenges 2018](#), selected eight LGBF indicators that give an indication of a Council's performance in services likely to be of great interest to the public. Over the last five years the Council improved performance against all eight indicators with 6 indicators showing year-on-year improvement or no reduction in performance over that period ([exhibit 23](#)).

**Exhibit 23**

South Lanarkshire Council's performance against selected LGBF indicators 2012/13 to 2016/17

Indicator	2012/13	2013/14	2014/15	2015/16	2016/17	Since 2012/13
Proportion of Pupils Entering Positive Destinations (%)	89.1	92.3	93.1	94.1	95.8	↑
Percentage of Pupils from Deprived Areas Gaining 5+ Awards at Level 6 (SIMD)	8.0	12.0	12.0	15.0	19.0	↑
Percentage of Pupils Gaining 5+ Awards at Level 6	26.0	29.0	31.0	34.0	35.0	↑
Percentage of income due from Council Tax received by the end of the year	95.7	95.7	95.8	95.9	96.0	↑
Percentage of people 65+ with intensive needs receiving care at home	36.5	36.1	35.8	35.6	38.1	↑
SDS spend on adults 18+ as a % of total social work spend on adults 18+	1.8	1.8	1.9	1.9	2.6	↑
Percentage of total household waste arising that is recycled	37.4	39.1	45.0	49.0	53.0	↑
Percentage of A class roads that should be considered for maintenance	25.9	22.7	21.0	22.2	23.0	↑

Source: Local Government Benchmarking Framework, Improvement Service 2018

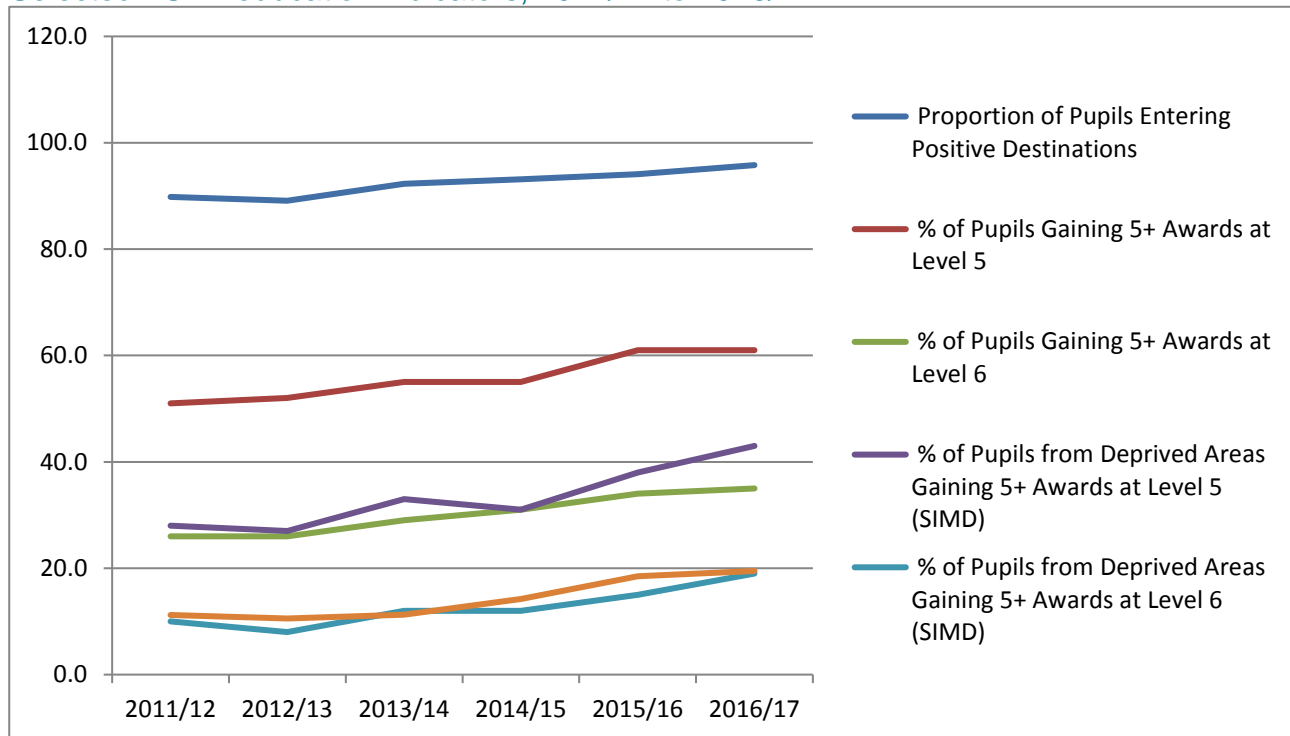
**Areas of good or improving performance**

**188.** The Council continues to perform well in education. Performance against 10 of the 12 indicators is above the Scottish average. The academic attainment of pupils from deprived areas is the fifth highest in Scotland. [Exhibit 24](#) indicates a positive trend of year-on-year improvements in performance against a number of key indicators since 2011/12.

**189.** Another area of generally strong performance was Corporate Assets and Economic Development where the Council was ranked second out of the 32 Scottish local authorities for both the proportion of operational buildings that are suitable for their current use, and the percentage of unemployed people assisted into work through Council funded / operated employability programmes.

## Exhibit 24

### Selected LGBF education indicators, 2011/12 to 2016/17



Source: Local Government Benchmarking Framework, Improvement Service 2018

### Areas of poor or deteriorating performance

**190.** The Council's overall performance against the LGBF housing indicators has been below the Scottish average in each of the last two years with the average time taken to complete non-emergency repairs being the third longest in Scotland in both years (13.7 days in 2015/16 and 13.4 days in 2016/17).

**191.** Management have advised that these performance levels reflect a policy decision to set a local target of 30 days for the completion of non-emergency repairs and to focus on completing repairs correct first time.

**192.** The LGBF indicators also include a range of measures for service satisfaction which are based on an average of the results of the Scottish household survey for the last 4 years (2014 to 2017). The Scottish Household Survey, which began in 1999 and is financed by the Scottish Government, is a continuous survey based on a sample of the general population in private residences in Scotland. The aim of the survey is to provide representative information about the composition, characteristics and behaviours of Scottish households, both nationally and at a more local level. The survey covers a wide range of topics to allow links to be made between different policy areas, with a particular focus on information to aid policy decisions on transport and social inclusion.

**193.** Review of the LGBF service satisfaction indicators highlighted that South Lanarkshire Council performs below the Scottish average for 8 of the 9 indicators, [exhibit 25](#). We would expect the Council's performance in achieving their Connect objectives to be reflected in service satisfaction levels in future years.

## Exhibit 25

### South Lanarkshire Council's performance against service satisfaction LGBF indicators

Indicator	Satisfaction level (%)	Ranking out of 32 Scottish local authorities
Adults satisfied with local schools	75.7	22 <sup>nd</sup>
Adults satisfied with social care or social work services	39.3	30 <sup>th</sup>
Adults satisfied libraries	69.3	29 <sup>th</sup>
Adults satisfied with parks and open spaces	79.0	29 <sup>th</sup>
Adults satisfied with museums and galleries	70.0	16 <sup>th</sup>
Adults satisfied with leisure facilities	72.3	23 <sup>rd</sup>
Adults satisfied with refuse collection	83.0	22 <sup>nd</sup>
Adults satisfied with street cleansing	72.3	20 <sup>th</sup>

Note: Satisfaction levels based on average of responses to Scottish household surveys for 2014 to 2017 with the exception of adults satisfied with social care or social work services which is based on the results of the 2013 to 2016 surveys as this information was not collected as part of 2017 survey.

Source: Local Government Benchmarking Framework, Improvement Service 2018

**194.** Management has advised that the Council routinely undertake customer satisfaction surveys at a local level and that these surveys typically provide a different picture from the LGBF results. As part of our BVAR we will consider the Council's own service satisfaction data to assess resident satisfaction with the key services delivered by the Council.

### Council response to LGBF data

**195.** Following the publication of the 2016/17 LGBF results, the Executive Director of Finance and Corporate Resources prepared a summary paper for the July meeting of the Corporate Management Team (CMT). This report advised the CMT of the Council's performance and the proposed actions to be taken to improve performance for those areas where performance is below the Scottish average. This report will also be taken to the Executive Committee for consideration by elected members. We will review the Council's actions as part of the forthcoming Best Value review.

### National performance audit reports

**196.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, a number of reports were issued which are of direct interest to the Council, [Appendix 4](#).

**197.** National reports examine issues of public interest across the public sector. They are intended to make a positive difference to the use of public money and the way public services are delivered, by making recommendations and highlighting good practice. Reports frequently include self-assessment checklists and guidance for members on where attention should be focused.

**198.** During 2017/18 we noted that all relevant national reports, including local government overview reports, were taken to the Risk and Audit Scrutiny Forum for consideration. These were accompanied by the completed self-assessment checklists, and other supplementary information explaining how the findings and recommendations relate to the specific circumstances of South Lanarkshire Council. We welcome this positive response to our national reports.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Capitalisation of grouped expenditure</b></p> <p>During 2017/18 the cost of a number of capital expenditure programmes had been added to the asset register as a single asset record.</p> <p><b>Risk:</b> There is a risk that future events impacting upon the value of the constituent assets (for example: disposal, replacement or impairment) are not reflected in the asset register.</p>	<p>The Council should review these items during 2018/19 to identify the major assets within each record.</p> <p><a href="#">Exhibit 3 – Finding 2</a></p>	<p>Agreed</p> <p>Head of Finance (Strategy)</p> <p>31 March 2019</p>
2	<p><b>Holiday pay accrual</b></p> <p>A number of anomalies were identified in the data originally used to calculate the holiday pay accrual.</p> <p><b>Risk:</b> There is a risk that the data used in this calculation does not accurately reflect the position at the year-end.</p>	<p>Management should investigate the source of the errors in the data to ensure that accurate information is available in the future.</p> <p><a href="#">Exhibit 3 – Finding 4</a></p>	<p>Agreed</p> <p>Head of Finance (Strategy) / Head of Personnel</p> <p>31 March 2019</p>
3	<p><b>Budget monitoring</b></p> <p>Budget monitoring and reporting does not provide members with early indications of the projected annual outturn and clear explanations of budget variances.</p> <p><b>Risk:</b> There is a risk that members are not able to scrutinise and challenge as effectively as they might.</p>	<p>Budget monitoring and reporting needs to be further improved to provide members with an earlier indication of the projected annual outturn and clearer explanations of budget variances.</p> <p><a href="#">Paragraphs 49-64</a></p>	<p>As reported in the audit report, information on projected known variances are being reported to Executive and Resources Committees. Therefore this action is complete.</p> <p>Head of Finance (Strategy)</p> <p>Complete</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p><b>Corporate items budget</b></p> <p>An underspend of £4.513 million (64%) was reported on the corporate items budget.</p> <p><b>Risk:</b> The budget for corporate items continues to have excess budget allocated to it potentially denying the use of resources elsewhere.</p>	<p>The Council should continue to closely monitor these budget elements to ensure they reflect actual costs or income.</p> <p><a href="#">Paragraphs 65-66</a></p>	<p>The majority of these variance areas were reported and corrected as part of the 2018/19 budget report. The balance were year-end entries. Therefore this action is complete. We will continue to monitor these budget areas.</p> <p>Head of Finance (Strategy)</p> <p>Complete</p>
5	<p><b>Earmarked reserves</b></p> <p>It is not clear that all of the earmarked elements of the general fund relate to known or predicted expenditure.</p> <p><b>Risk:</b> There is a risk that amounts have been earmarked that could be released to the uncommitted reserves to be used on Connect priorities.</p>	<p>Management should undertake a detailed review of the earmarked general fund and reassign to the uncommitted general fund any amounts for which there is no clearly identified specific commitment.</p> <p><a href="#">Paragraphs 85-88</a></p>	<p>The earmarked portion of the General Fund Reserve is reviewed annually to ensure that there is a clearly identified commitment. Therefore this action is complete.</p> <p>Head of Finance (Strategy)</p> <p>Complete</p>
6	<p><b>Performance management</b></p> <p>The current IMPROVe performance reporting does not demonstrate that resources are delivering the required actions and contributing towards continuous improvement.</p> <p><b>Risk:</b> Members are not provided with a clear picture of performance.</p>	<p>The Council should review their internal reporting to ensure elected members are being provided with a clear picture of performance against the Connect objectives.</p> <p><a href="#">Paragraphs 168-176</a></p>	<p>Agreed – A review of IMPROVe performance reporting is under way, with changes to the system expected to be introduced through into 2019, and a revised approach fully operational for the 2019-20 reporting year.</p> <p>Head of Communications and Strategy</p> <p>31 March 2019</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<b>1 Risk of management override of controls</b>  ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<b>2 Risk of fraud over income</b>  ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.	<ul style="list-style-type: none"> <li>Walk through of controls over income systems.</li> <li>Analytical procedures on income streams.</li> <li>Sample testing of revenue transactions.</li> </ul>	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>
<b>3 Risk of fraud over expenditure</b>  The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Council incurs significant expenditure in areas such as welfare benefits, grant payments and procurement expenditure, which present a risk of fraud over expenditure.	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative matches.</li> <li>Audit of grants.</li> <li>Analytical procedures on expenditure streams.</li> <li>Sample testing of expenditure and housing benefit transactions.</li> </ul>	<p>We concluded that the Council is proactive in following up NFI matches.</p> <p>No control weaknesses were identified in relation to grant schemes.</p> <p>No significant issues were identified from our testing of expenditure and housing benefit transactions disclosed in the 2017/18 financial statements.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 Estimation uncertainty in property valuations</b></p> <p>The Council owns property valued at £1.476 billion on its balance sheet as at 31 March 2017. Property valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> <li>• Review of the work of the valuer.</li> <li>• Focused substantive testing of classification and valuation of assets.</li> </ul>	<p>Our review of the work of the Council's valuation team confirmed the appropriateness of the methodology and assumptions used.</p> <p>Our testing identified expenditure for improvement works on council dwellings totalling of £83.852 million that had been capitalised as property, plant and equipment assets. As the impact of these improvements is already reflected in the valuation of council dwellings at 31 March 2018 we asked for an adjustment to be processed to write down the cost of these works to zero to prevent these being double counted.</p> <p><a href="#">Exhibit 3 – Finding 1</a></p> <p>Our revaluations testing identified two in-year valuations that were not accurately reflected in the asset register. This resulted in the value of Halfmerke Primary School being overstated by £1.967 million and the value of First Steps Nursery being overstated by £0.360 million.</p> <p>We extended our testing to review all high value assets (i.e. assets valued at over £10 million) revalued during the year. This did not identify any further issues.</p> <p><a href="#">Exhibit 3 – Finding 3</a></p> <p>The audited annual accounts have been amended to correct these errors.</p>
<p><b>5 Estimation uncertainty in pension valuations</b></p> <p>The Council had a pension liability of £711 million, as at 31 March 2017. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on external variables. Actuarial valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> <li>• Review of the work of the actuary.</li> <li>• Review appropriateness of actuarial assumptions.</li> <li>• Confirm pension valuations in actuarial report are correctly reflected within the 2017/18 accounts.</li> </ul>	<p>The actuarial estimate of the pension fund's assets at 31 March 2018 was underestimated. As a consequence, the Council share of the pension fund assets was understated in the actuary's report which resulted in an overstatement of the Council's net pension liability by £35.506 million.</p> <p><a href="#">Exhibit 3 – Finding 6</a></p> <p>The audited annual accounts have been amended to correct this.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>6 Approval of write-offs</b></p> <p>During the 2016/17 audit we identified that a number of debts had been written off prior to being approved by the appropriate committee. There is a risk that similar issues are encountered during 2017/18.</p>	<ul style="list-style-type: none"> <li>Review debts written-off for accounts against committee approval.</li> </ul>	<p>We confirmed that all debts written-off during 2017/18 were approved by the Finance and Corporate Resources committee prior to the provision of the annual accounts.</p>

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

<p><b>7 Financial sustainability</b></p> <p>The council continues to face significant financial pressures from reductions in Scottish Government funding and increasing unavoidable costs. There is a risk that the council is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> <li>Review financial monitoring reports and the financial position.</li> <li>Review spending outturns against budget.</li> <li>Review planned use and reliance on unallocated reserves.</li> <li>Review long-term financial strategy.</li> </ul>	<p>The financial position of the Council is sustainable, currently and in the foreseeable future. However, rising demand, increasing costs and reduced central funding will continue to place a strain on the council's capacity to deliver services at the current levels. The council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium term financial plans in place.</p> <p><a href="#">Paragraphs 78-91</a></p>
<p><b>8 Status of Risk and Audit Scrutiny Forum</b></p> <p>The current terms of reference of the Council's RASF are limited.</p> <p>We have previously expressed the view that this dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance. Management agreed to review the arrangements in place with reference to best practice.</p>	<ul style="list-style-type: none"> <li>We will consider any changes to the Council's committee structure against best practice guidance.</li> </ul>	<p>During 2017/18 the Council approved a new Risk and Audit Scrutiny Committee with delegated decision making powers, including the power to approve the internal audit strategy and annual plan, and the annual governance statement and annual accounts.</p> <p><a href="#">Paragraphs 110-112</a></p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>9 Cyber security</b></p> <p>Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by a recent “WannaCry” ransomware attack on the NHS. There is a risk that the council is not fully aware of vulnerabilities in its ICT systems and may be at risk of unauthorised access and subsequent damage and interruption to its IT services.</p>	<ul style="list-style-type: none"> <li>Assess Council’s cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.</li> </ul>	<p>The Council has committed to fully implementing the Scottish Government’s Public Sector Action Plan on Cyber Resilience by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation by October 2018.</p> <p><a href="#">Paragraphs 142-144</a></p>
<p><b>10 PSN compliance</b></p> <p>The council currently does not have a valid Public Sector Network (PSN) certificate. There is a risk that continued non-compliance with PSN could lead to financial and reputational losses for the council.</p>	<ul style="list-style-type: none"> <li>Review progress against the PSN accreditation action plan.</li> </ul>	<p>In June 2018 the Council received confirmation from the Cabinet Office that their PSN accreditation had been approved.</p> <p><a href="#">Paragraphs 145/146</a></p>

# Appendix 3

## Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		Aug		
Equal pay in Scottish councils		Sept		
Transport Scotland's ferry services		Oct		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov		
		Dec		
		Jan		
Early learning and childcare		Feb		
Managing the implementation of the Scotland Acts		Mar		

### Local government relevant reports

[\*Principles for a digital future\*](#) – May 2017

[\*Self-directed support: 2017 progress report\*](#) – August 2017

[\*Equal pay in Scottish councils\*](#) – September 2017

[\*Local government in Scotland: Financial overview 2016/17\*](#) – November 2017

# South Lanarkshire Council

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