



Council Offices, Almada Street
Hamilton, ML3 0AA

Thursday, 05 November 2020

Dear Councillor

Risk and Audit Scrutiny Committee

The Members listed below are requested to attend a special meeting of the above Committee to be held as follows:-

Date: Monday, 16 November 2020
Time: 11:00
Venue: By Microsoft Teams,

The business to be considered at the meeting is listed overleaf.

Yours sincerely

Cleland Sneddon
Chief Executive

Members

Graeme Campbell (Chair), Walter Brogan, Mary Donnelly, Grant Ferguson, Martin Lennon, Julia Marrs, Davie McLachlan, Carol Nugent, Jared Wark

Substitutes

Janine Calikes, Margaret Cowie, Ian Harrow, Eric Holford, Bert Thomson

BUSINESS

1 Declaration of Interests

Monitoring Item(s)

- | | | |
|----------|---|--------|
| 2 | External Auditor's Annual Report to South Lanarkshire Council | 3 - 62 |
| | Letter and report dated 16 November 2020 by Audit Scotland, External Auditors to the Council. (Copy attached) | |
-

Item(s) for Decision

- | | | |
|----------|---|---------|
| 3 | Audited Annual Accounts 2019/2020 | 63 - 66 |
| | Report dated 6 November 2020 by the Executive Director (Finance and Corporate Resources). (Copy attached) | |
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Urgent Business

- | | |
|----------|---|
| 4 | Urgent Business |
| | Any other items of business which the Chair decides are urgent. |
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For further information, please contact:-

Clerk Name: Pauline MacRae

Clerk Telephone: 01698 454108

Clerk Email: pauline.macrae@southlanarkshire.gov.uk

Risk and Audit Scrutiny Committee

16 November 2020

South Lanarkshire Council Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts of South Lanarkshire Council and the registered charities administered by the council (**appendix C**) is now substantially complete. Subject to the receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report following approval of the annual accounts. The proposed reports are attached at **appendices A** and **D**.

Annual audit report

2. We also present for your consideration our proposed Annual Audit Report on the 2019/20 audit. International Standard on Auditing (UK) 260 (Communication with those charged with governance) requires auditors to report specific matters arising from the audit of the annual accounts to those charged with governance in sufficient time to enable appropriate action to be taken where necessary. Within the proposed Annual Audit Report (page 11), exhibit 3 sets out the issues which we consider require to be drawn to your attention.
3. The Annual Audit Report will be issued in its final form after the annual accounts have been approved for issue and the independent auditor's report has been signed.
4. The Risk and Audit Scrutiny Committee should, prior to approving the annual accounts, draw to our attention:
 - any instances of any actual, suspected or alleged fraud;
 - any events after 31 March 2020 likely to have a material effect on the financial statements;
 - any material non-compliance with laws and regulations.

Unadjusted misstatements

5. We are required to report to you, all unadjusted misstatements, other than those of a trivial nature, and request that they be corrected. There are no unadjusted misstatement to report.

Representations from management

6. As part of the completion of our audit, we request written representations from the Executive Director of Finance and Corporate Resources on aspects of the annual accounts including the judgements and estimates made in preparing the financial statements.

7. Draft letters of representation in respect of the council and the registered charities are attached at **appendices B** and **E**; they should be reviewed for accuracy and any proposed amendment discussed with us. Once satisfied, the letter should be signed and returned by the Executive Director of Finance and Corporate Resources with the signed annual accounts.

Concluding remarks

8. We would like to express our thanks to the staff of South Lanarkshire Council for their courteous assistance during the course of this year's audit under difficult circumstances. This enabled us to bring the audit to completion with minimum delay.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of South Lanarkshire Council and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statements, Balance Sheets, Movement in Reserves Statements, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the National Non-Domestic Rates Income Accounts Statement, the Council Tax Income Account Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 18 July 2016. The period of total uninterrupted appointment is 4 years. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter: Valuations of land and buildings

I draw attention to note 2 of the notes to the financial statements in the annual accounts, assumptions made about the future and other major sources of estimation uncertainty, which describes the effects of material uncertainties, caused by Covid-19, declared in the valuation report for land and buildings. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's

ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director of Finance and Corporate Resources and the Risk and Audit Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance and Corporate Resources is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Finance and Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance and Corporate Resources is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Risk and Audit Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Executive Director of Finance and Corporate Resources is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Fiona Mitchell-Knight FCA
Audit Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

16 November 2020

APPENDIX B: Letter of Representation (ISA 580)

Fiona Mitchell-Knight FCA
Fiona Mitchell-Knight
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

16 November 2020

Dear Fiona

South Lanarkshire Council Annual Accounts 2019/20

This representation letter is provided in connection with your audit of the financial statements of South Lanarkshire Council and its group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of South Lanarkshire Council and its group, as at 31 March 2020 and its comprehensive net expenditure for the year then ended.

I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Corporate Management Team and the Council, the following representations given to you in connection with your audit of South Lanarkshire Council for the year ended 31 March 2020.

Legality of financial transactions

The financial transactions of South Lanarkshire Council are in accordance with the relevant legislation and regulations governing its activities. All known or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to you, together with any actual or contingent consequences which may arise.

Financial Reporting Framework

The financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, The Local Authority Accounts (Scotland) Regulations 2014 and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

Disclosure has been made in the annual accounts of all matters necessary for them to show a true and fair view of the transactions and state of affairs of South Lanarkshire Council and its group for the year ended 31 March 2020.

Accounting Policies & Estimates

All material accounting policies adopted are as shown at note 36 to the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter and takes account of the requirements set out in the Code.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements.

Going Concern

I have assessed the ability of the council and its group to carry on as a going concern and concluded that it is appropriate to prepare the financial statements on a going concern basis.

Remuneration report

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014.

Related party transactions

All related party transactions have been identified and disclosed at note 16 to the accounts. I have made available to you all relevant information concerning such transactions. I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code.

Assets

General

The assets shown in the books and accounts at 31 March 2020, other than assets which are employed under finance leases, were owned by South Lanarkshire Council. The assets are free from any lien, encumbrance or charge.

Non-current assets

For the year ended 31 March 2020, title deeds for properties owned or mortgaged to South Lanarkshire Council were held by the Council and all such deeds were in order.

All non-current assets are appropriately classified. The net book amount in the balance sheet was arrived at after:

- taking into account all material capital expenditure on additions but not expenditure properly chargeable to revenue
- the amounts at which the land and buildings were stated in the balance sheet were properly calculated in accordance with the approved bases of valuation and fairly represented the values at 31 March 2020
- deducting the cost and accumulated depreciation relating to items sold or scrapped
- providing for depreciation and obsolescence on bases and at rates calculated to reduce the net book value of each asset to its estimated residual value by the end of its probable useful life.

There are no known errors in the valuations of non-current assets in the balance sheet.

Council houses

The council's housing stock was valued on the Existing Use Value - Social Housing (EUV – SH) using the beacon principle. In my view the valuation approach complies with RICS guidance, it is in accordance with the Code and fairly represents the value of the housing stock.

Intangible assets

The council owns intangible assets in the form of software licences. Intangible assets have been separately identified in the balance sheet. Intangible assets have been recognised in accordance with the Code and IAS 38, as disclosed in note 21 to the accounts.

Leases

All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by South Lanarkshire Council have been correctly classified and disclosed within the financial statements.

Heritage assets

In line with the requirements of FRS 30 Heritage Assets, heritage assets are included in the balance sheet at valuation. As allowed by the Code, the basis of valuation is the declared valuation for insurance purposes or replacement value. There are a number of heritage assets where obtaining a valuation would involve disproportionate cost and the Code permits such assets to be excluded from the balance sheet.

Long-term debtors and prepayments

All such debtors and prepayments have been fully provided for in the books of account.

Inventories

The council's stocks have been valued at the lower of cost or net realisable value. All inventories are included in the financial statements.

Liabilities

All liabilities have been provided for in the books of account, including the liability for all purchases for which title has passed prior to 31 March 2020 and deferred liabilities arising from the financing of PPP/PFI contracts and other finance leases.

Contingent assets and liabilities

There are no significant contingent assets or liabilities, other than those disclosed in note 31 to the accounts. All known contingent liabilities, including any outstanding legal claims which have not been provided for under the Code and IAS 35, have been fully and properly disclosed.

Provisions

Provisions have been made in the financial statements for all material liabilities which have resulted, or may be expected to result, from events which had occurred by 31 March 2020. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2020.

Accrued expenditure

Expenditure has only been accrued where it relates to costs incurred prior to the financial year end.

Employee benefit accrual

The employee benefit accrual has been calculated by extrapolating actual costs from a sample of staff. In my opinion the sample selected is representative of the workforce as a whole.

Loans fund

All borrowings are compliant with relevant legislation. The council did not, during 2019/20, borrow in advance of immediate requirements other than as part of normal treasury management.

Insurance fund

In respect of the council's insurance fund for property, motor and liability insurance, there are no material unfunded risks.

Other matters

I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code.

Except as disclosed in the financial statements, the results for the period were not materially affected by:

- transactions of a sort not usually undertaken by South Lanarkshire Council
- circumstances of an exceptional or non-recurrent nature
- charges or credits relating to prior periods
- any change in the basis of accounting.

There are no collateral arrangements that require disclosure within the accounts. There are no material defaults on loans.

I have reviewed the impact of Covid-19 on the annual accounts and have reflected on the impact on global financial markets in note 2. I am satisfied that all reasonable action has been taken to identify the impact of Covid-19 on the fair value of land and buildings with this disclosed appropriately in the annual accounts.

I have reviewed the assumptions made by the actuary in the IAS19 report for South Lanarkshire Council and I confirm that they are consistent with management's own view.

In my opinion, the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's ISA260 report to those charged with governance.

Common good fund and trust funds

In my opinion the common good assets, liabilities and revenue transactions within the financial statements are materially complete. All common good assets, liabilities and revenue transactions have been properly separated from the council's single entity accounts and are reflected within the common good accounts in accordance with LASAAC guidance issued in December 2007. Similarly, all assets, liabilities and revenue transactions relating to

trusts administered by the council have been properly separated from the council's single entity accounts and are reflected within the trust fund accounts.

Group accounts

The group accounts have been prepared in accordance with the Code and relevant accounting standards and are based on the financial statements of the individual bodies for the year ended 31 March 2020. In my opinion the group assets, liabilities and revenue transactions in the financial statements are materially complete. The group boundary has been reviewed in accordance with the Code and there are no material entities that have been omitted from consolidation within the financial statements. All material issues relating to group entities have been disclosed to you.

Corporate governance

I acknowledge, as the officer with responsibility for the proper administration of the council's financial affairs by virtue of section 95 of the Local Government (Scotland) Act 1973, my responsibility for the systems of internal control. I confirm that the Annual Governance Statement has been prepared in accordance with the ***Delivering Good Governance in Local Government: Framework 2016*** and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2020.

Fraud

I acknowledge that it is the responsibility of South Lanarkshire Council to prevent and detect fraud and other irregularity. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to you any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Events subsequent to the date of the balance sheet

Other than the decreased pension liability arising from legal judgements, there have been no material events since 31 March which would require the revision of the figures in the financial statements or notes thereto.

Since 31 March no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely,

Paul Manning

Executive Director of Finance and Corporate Resources, South Lanarkshire Council

APPENDIX C: Registered charities administered by South Lanarkshire Council

Charity	Scottish charity number
South Lanarkshire Council Charitable Trusts	SC025089
East Kilbride Information Technology Centre Trust	SC015221
South Lanarkshire Council Educational Trusts	SC028135

APPENDIX D: Proposed independent auditors report - registered charities administered by South Lanarkshire Council

Independent auditor's report to the trustees of <insert name of charity> and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of <insert name of charity> for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2020 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other

information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Dave Richardson FCCA
Senior Audit Manager
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

16 November 2020

Dave Richardson is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix E: Letter of representation - registered charities administered by South Lanarkshire Council

Dave Richardson FCCA
Senior Audit Manager
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

16 November 2020

Dear Dave,

South Lanarkshire Charitable Trusts
East Kilbride Information Technology Centre Trust
South Lanarkshire Educational Trusts

SC025089
SC015221
SC028135

Annual accounts of the registered charities administered by South Lanarkshire Council 2019/2020

This representation letter is provided in connection with your audit of the financial statements of the registered charities listed above for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements properly presents the financial position of each of these registered charities as at 31 March 2020 and their receipts and payments for the year then ended.

I confirm to the best of my knowledge and belief and having made appropriate enquiries of the trustees of the registered charitable trusts, the following representations given to you in connection with your audit for the year ended 31 March 2020.

General

I acknowledge my responsibility and that of South Lanarkshire Council, as the administering authority, for the preparation of the financial statements on behalf of the trustees. All of the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the registered charitable trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Trustees Reports presents a balanced picture of each charity and is consistent with the financial statements.

I confirm that there are no uncorrected misstatements.

Financial reporting framework

The financial statements have been prepared in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements. The financial statements also comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the Charities Accounts (Scotland) Regulations 2006 and guidance issued by the Office of the Scottish Charity Regulator (OSCR).

Disclosure has been made in the financial statements of all matters necessary for them to properly present the transactions and state of affairs of each charity for the year ended 31 March 2020.

Accounting policies

The financial statements have been prepared on a receipts and payments basis in accordance with applicable regulations and the founding documents of each charitable trust.

Assets

The cash fund and investments shown in the statement of balances at 31 March 2020 were owned by the charities. Assets are free from any lien, encumbrance or charge. There are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

Related party transactions

There were no related party transactions with any party other than South Lanarkshire Council as administering agent.

Governance

The business of the charitable trusts is recorded in the systems of South Lanarkshire Council. As section 95 officer for South Lanarkshire Council, I confirm that there are no issues or deficiencies in internal control that require to be disclosed within the financial statements of the charitable trusts.

Fraud

I have considered the risk that the financial statements may be materially misstated as a result of fraud or irregularity. There have been no actual or alleged frauds or irregularities involving trustees or staff of South Lanarkshire Council that could affect the financial statements of the charitable trusts.

Events subsequent to the balance sheet date

There have been no material events since 31 March 2020 which necessitate revision of the figures in the financial statements or notes thereto, including contingent assets and liabilities.

Since 31 March 2020 no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Paul Manning

Executive Director of Finance and Corporate Resources, South Lanarkshire Council, for and on behalf of the trustees of the charities administered by South Lanarkshire Council.

South Lanarkshire² Council

Proposed 2019/20 Annual Audit Report

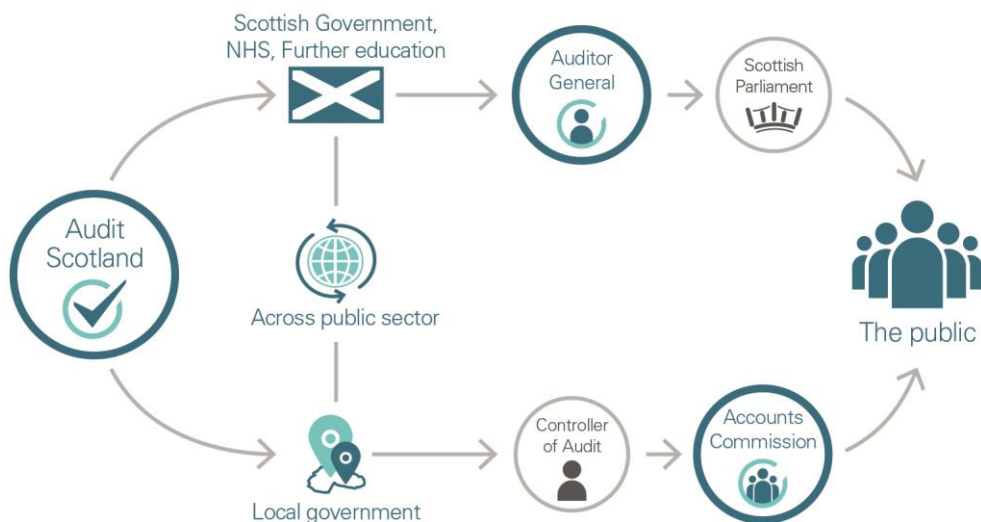


Prepared for the Members of South Lanarkshire Council and the Controller of Audit
16 November 2020

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

2019/20 annual accounts

- 1 The financial statements of South Lanarkshire Council and its group give a true and fair view of its financial position for the year ended 31 March 2020. We have issued an unqualified independent auditor's report on the council's annual accounts.
- 2 An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the uncertainty of property valuations consequent on the effects of Covid-19.
- 3 We have issued unqualified independent auditor's reports on the three charities administered by the council.

Financial management

- 4 The council has a history of delivering services within budget this is evidence of effective financial management over resource directorate expenditure. Covid-19 had a limited financial impact in 2019/20.
- 5 There have been consistent significant surpluses arising from council tax collection over a number of years. Management should review the methodology for the preparation of council tax income budgets.

Financial sustainability

- 6 As the council reinstates services post Covid-19, it is likely to require, expenditure beyond that in the budget and financial plans will need to be revised accordingly.
- 7 The council's long-term financial planning indicates substantial budget gaps in each year to 2026/27 but it has plans in place to address the funding challenges it faces.

Governance and transparency

- 8 The council's arrangements, both before and after the impact of Covid-19, are appropriate and support good governance and accountability.
- 9 Overall, we concluded that the council conducts its business in an open and transparent manner.

Best Value

- 10 The council has made good progress against the action plan arising from the 2019 Best Value Assurance Report. Further progress has been slowed by the Covid-19 disruption.
- 11 Performance, measured by the Local Government Benchmarking Framework indicators for 2018/19, remained relatively stable.

Introduction

Annual Audit Plan

1. The scope of the audit was set out in our [2019/20 Annual Audit Plan](#) submitted to the Risk and Audit Scrutiny Committee meeting of February 2020.
2. This report summarises findings from:
 - our audit of the annual accounts
 - our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the [Code of Audit Practice 2016](#) and illustrated at [exhibit 1](#).
3. Subsequent to the submission of the Annual Audit Plan, the council had to respond to the Covid-19 disruption. For the financial year 2019/20, only the final few weeks were affected, however, the effects will have significant impact into financial year 2020/21. We reviewed our assessment of audit risks and the planned audit work in July 2020 and concluded that they remained relevant. However, due to Covid-19 suppression measures, we were not able to complete our planned work on the council's complaints handling procedures. This review has been deferred.

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

4. The main elements of our audit work in 2019/20 were:
 - a review of the council's main financial systems and governance arrangements
 - the audit of the council's 2019/20 annual accounts.

Responsibilities and reporting

5. The management of the council is responsible for, *inter alia*:

- preparing annual accounts in accordance with legislation and the Code of Practice on Local Authority Accounting in the UK
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

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

7. Our audit of the annual accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this Annual Audit 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 annual accounts prepared by management. This does not relieve management of the responsibility for the preparation of the annual accounts.

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

9. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the annual accounts. The Independent Auditor's Report sets out our opinions on:

- whether the financial statements give a true and fair view of the state of the affairs of the council and of its income and expenditure for the year.
- whether the annual accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.
- whether the annual accounts have been prepared in accordance with relevant legislation.
- other matters as directed by the Accounts Commission.

10. An action plan is included at [appendix 1](#) setting out our recommendations to address issues identified from our audit. Officers have considered the issues and agreed to take the specific steps in the column headed "*Agreed management action/timing*". Members of the Risk and Audit Scrutiny Committee should ensure that they are satisfied with proposed actions and have a mechanism in place to assess progress and monitor outcomes.

Best Value

11. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for citizens. The council underwent a Best Value audit during 2018/19 and a [Best Value Assurance Report](#) was published by the Accounts Commission in March 2019. We review progress against the action plan included in that report at Part 5 of this report.

Adding value through the audit

12. Our aim is to add value to the council by providing an objective view on financial sustainability, governance, risk and performance. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and the more effective use of resources.

Auditor independence

13. We comply with the Financial Reporting Council's Ethical Standard. We have not provided non-audit services. No work was undertaken beyond that set out in our Annual Audit Plan, therefore, our audit fee of £498,970 remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Publication

14. This report is addressed to the members of the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Extension of audit appointment

15. Auditors appointed under statute by the Accounts Commission are engaged for a five-year period. The current audit engagement was due to end after the conclusion of the 2020/21 audit. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm.

16. Covid-19 will have implications beyond the immediate challenge of this year's final accounts. As this year's audits will be reported later than normal, planning for and potentially reporting next year's annual audit work will also be affected. At its October meeting Accounts Commission approved the extension of current audit appointments for a year to include the 2021/22 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary procurement exercise during the pandemic. Similar extensions are effective for the council's associated bodies, for example, the Lanarkshire Valuation Joint Board.

Acknowledgement

17. The courteous co-operation and assistance extended to us over the past year by members and staff of South Lanarkshire Council is gratefully acknowledged.

Part 1

Audit of 2019/20 annual accounts



Main judgements

The financial statements of South Lanarkshire Council and its group give a true and fair view of its financial position for the year ended 31 March 2020. We have issued an unqualified independent auditor's report on the council's annual accounts.

An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the uncertainty of property valuations consequent on the effects of Covid-19.

The management commentary, annual governance statement and remuneration report are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

We have issued unqualified independent auditor's reports on the three charities administered by the council.

Audit opinions on the annual accounts

18. The council's annual accounts for the year ended 31 March 2020 were approved by the Risk and Audit Scrutiny Committee on 16 November 2020. We reported, in our independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the UK.
- the management commentary, annual governance statement and the remuneration report were consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

19. We concluded that there were no matters upon which we are required to report, by exception, to the Accounts Commission.

The council's annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

Emphasis of matter

20. An "emphasis of matter" paragraph is a paragraph added to an independent auditor's report. It does not qualify or modify the auditor's opinion on the financial statements. It is used to indicate a matter which is disclosed appropriately in the financial statements, and notes thereto, but which the auditor considers should be drawn to users' attention as being fundamental to understanding the financial statements.

21. Management has noted (note 2 to the annual accounts) the unprecedented challenges in obtaining reliable valuations of land and buildings arising from the Covid-19 disruption. The note indicates that the effects of Covid-19 on values have not yet become fully apparent and asset values have not been reappraised to take account of this uncertainty. The note also provides an indication of the sensitivity of balance sheet value to percentage movements in valuations. We have included an "emphasis of matter" paragraph in our independent auditor's report to draw attention to the scale of the uncertainty. We expect that the inclusion of such a

paragraph will be a feature of 2019/20 independent auditor reports across the public sector.

Submission of annual accounts for audit

22. Despite the disruption caused by Covid-19, the council did not elect to postpone the preparation of its annual accounts. The unaudited annual accounts were submitted to us on 30 June 2020 in line with the original pre-Covid timetable.

23. The working papers provided with the unaudited accounts were of a high standard and finance staff provided good support to the audit team during the audit. This helped ensure that the annual accounts audit process ran smoothly. Our proposed schedule for completing the audit of the council's annual accounts was adversely affected by audit resource demands across the public sector and to some extent by remote working. Ultimately the annual accounts were signed off within the revised Scottish Government timeframe.

Management commentary

24. The management commentary is intended to expand upon and provide clarity and context to the information in the financial statements. A number of elements are prescribed, including: an analysis of past performance; the priorities of the council and the plans and strategies adopted to achieve them; and, principal risks and uncertainties, their potential impact and the mitigating actions being taken. Guidance emphasises that each body has scope for innovation and variation on how it "tells its story", the general principle is that it should provide "a fair, balanced and understandable" analysis of a body's performance to meet the needs of members and other stakeholders, including members of the public.

25. In our 2018/19 annual audit report we recommended that the council review the presentation and information disclosed in its management commentary to help create a more user-friendly read.

26. We acknowledge that management has made some improvements to the management commentary in 2019/20. There was clear evidence that management had considered our prior year comments and had made use of the [*Good Practice Note: Management Commentaries Enhancing the quality of local government annual accounts*](#). The inclusion of infographics in the 2019/20 management commentary should provide users with a more accessible picture of the council's performance during the year.

27. Notwithstanding the acknowledged improvements, there remains scope for further improvement in the overall presentation. In particular, there needs to be a clearer focus on lay members and the public as the principal audience. A reduction of the use of technical language and a greater emphasis on "plain English" would increase transparency and improve access for both external and internal users.

Annual governance statement

28. The council has a Local Code of Corporate Governance and this is reviewed and updated annually. The local code follows the principles set out in the CIPFA /SOLACE Delivering good governance in local government: framework 2016. In our annual audit report 2018/19 we commended the council's annual governance statement as being good practice and this continues to be the case.

29. In response to Covid-19 and government imposed social restrictions, public bodies had to quickly change how they delivered services. The widespread use of virtual working and the rapid introduction of new programmes and services to support businesses and individuals, create a range of potential financial risks and challenges to internal controls. In its annual governance statement, the council has made appropriate disclosure of the impact that Covid-19 has had on its governance arrangements in 2019/20 and the continued risk this represents for 2020/21.

Remuneration report

30. The remuneration report is consistent with the financial statements and has been prepared in accordance with applicable guidance.

Risk of material misstatement

31. 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 could impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

Materiality

32. 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).

33. Our initial assessment of materiality for the financial statements is undertaken during the planning phase of the audit. On receipt of the unaudited annual accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at [exhibit 2](#).

Exhibit 2

Materiality levels

Materiality levels	Amount
Overall materiality - This is the calculated figure used in assessing the potential effect of errors in the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2020.	£12.805 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of overall materiality.	£6.400 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£0.125 million

Source: Audit Scotland

Significant findings from the audit of the annual accounts

34. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to "those charged with governance". The qualitative aspects of the council's accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the council.

35. Significant findings are summarised at [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.

36. In addition to the issues set below, and in accordance with normal audit practice, some presentational and disclosure amendments were discussed and agreed with management.

Exhibit 3

Significant findings from the audit of the annual accounts

Issue	Resolution
<p>1. Impact of Covid-19 on the valuations of land and buildings</p> <p>The council has a five-year rolling programme of assets valuations which is carried out by qualified surveyors from its Estates Service. A year-end review of market factors is an important element of the valuation process.</p> <p>The valuation report for 2019/20 contains a '<i>material valuation uncertainty</i>' clause regarding the impact of Covid-19. It points out that a higher degree of caution should be attached to the valuation than would normally be the case.</p>	<p>Management have made appropriate disclosures within the annual accounts.</p> <p>We have added an "emphasis of matter" paragraph to the independent auditor's report as we believe the disclosure is fundamental to users' understanding of the accounts.</p> <p>We have received formal management representations regarding management's assessment of the fair value of land and property on the balance sheet.</p>
<p>2. Pension liability</p> <p>The pension liability on the balance sheet of the unaudited annual accounts had to be recalculated to take account of additional information arising from legal developments after the year-end. We have summarised the issues in more detail at paragraphs 40 to 45 below.</p>	<p>In August, Strathclyde Pension Fund actuaries provided an updated estimate of the council's pension liability. The council's net pension liability was reduced from £366.905 million (unaudited annual accounts) to £351.027 million. A reduction of £15.878 million.</p>
<p>3. Non-domestic rates (NDR)</p> <p>The council collects NDR on behalf of the Scottish Government. NDR collected in Scotland are pooled and distributions are made, from the pool, to individual councils. While it is necessary for the council to maintain records relating to the collection of NDR, only amounts due to or from the NDR rate pool should be recognised in the annual accounts. The council's unaudited annual accounts included debtor and creditor balances in relation to the collection of NDR.</p> <p>To apply the correct accounting treatment an adjustment was required to decrease both debtors and creditors by £4.028 million.</p> <p>The 2018/19 figures have also been restated, decreasing both debtors and creditors by £4.213 million.</p>	<p>Management have made appropriate adjustments.</p>

Issue	Resolution
<p>4. Holiday pay accrual – non-teachers</p> <p>The council must create an accrual for the cost of any unused annual leave at the year end. The calculation should include costs such as national insurance and pension contributions. The accrual in the unaudited annual accounts did not include these costs and as such was understated by £1.200 million.</p>	<p>Management have made appropriate adjustments.</p>
<p>5. Holiday pay accrual – teachers</p> <p>The calculation did not include all forms of paid leave. This resulted in the accrual being understated by £0.462 million.</p>	<p>Management have made appropriate adjustments.</p>
<p>6. Recognition of liability</p> <p>Our trade creditors testing identified an invoice for £0.221 million relating to 2020/21 that had erroneously been included in the 2019/20 annual accounts.</p>	<p>Management have made appropriate adjustments.</p>
<p>7. Long term debtor classification</p> <p>Our testing of year-end short-term debtors identified a two-year maintenance contract for £0.320 million. Part of the invoice, £0.145 million, related to financial year 2021/22. and should have been classified as a long-term debtor in the balance sheet.</p>	<p>Management have made appropriate adjustments.</p>
<p>8. Credit balances in debtors</p> <p>Credit balances totalling £0.412 million were included in the year end sundry debtors balance. As part of the year end accounts preparation process these were correctly transferred to creditors. However, we identified several credit balances that appeared to relate to a corresponding sundry debtor.</p>	<p>Management should undertake a frequent review and clear out of credit balances, and where appropriate apply the balance to the relevant outstanding sundry debtors.</p> <div data-bbox="815 1339 884 1417"> </div> <p>Recommendation 1</p>
<p>9. Council houses- assets under construction</p> <p>The net movement of the various adjustments is to increase total “property, plant and equipment” by £37.865 million in the balance sheet.</p>	<p>Management have made appropriate adjustments.</p>
<p>10. Asset register – fully depreciated assets</p> <p>Where assets are no longer in use they should be formally scrapped or sold. Assets continuing in use should be revalued and depreciated over the remaining useful economic life. Our review of the asset register identified that there were 347 assets with an original cost and accumulated depreciation of £29.774million.</p>	<p>Management have made appropriate adjustments to the 2019/20 accounts in respect of some £20.867 million. Satisfactory proposals have been made to deal with the balance in 2020/21.</p> <div data-bbox="815 1821 884 1899"> </div> <p>Recommendation 2</p>
<p>11. HRA – rent arrears</p> <p>The figure in the unaudited accounts for HRA rent arrears was calculated using SHR performance indicator guidance which excludes some elements</p>	<p>Management have made appropriate adjustments. The HRA figure has been restated as £6.790 million, an increase of £0.989 million.</p>

Issue	Resolution
of arrears. In our view the CIPFA code of practice does not allow for any exclusions and we requested that these were included in the rent arrears figure. The amendment has no impact on the HRA, it is a change to the disclosure at note 3 to the HRA only.	
Source: Audit Scotland	

Evaluation of misstatements

37. It is our responsibility to request that all misstatements above our reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

38. We identified a number of misstatements in the unaudited financial statements with a gross value of £80.394 million all of which have been adjusted in the audited accounts. Significant misstatements are explained at exhibit 3 above. The misstatements having the greatest effect on the financial statements were the misclassification of council houses under construction (£37.865 million), amendment to accumulated depreciation (£20.867 million) and the late notification of a pension adjustment (£15.878 million).

39. The adjustments have resulted in total comprehensive net expenditure decreasing by £18.757 million and an increase in usable and unusable reserves of £0.221 million and £52.081 million respectively.

Other matters arising – accounting for non-current assets

40. Non-current assets (or fixed assets) are those assets which are used over a number of years for the delivery of services. The recognition and measurement of non-current assets in the council's balance sheet provides stakeholders with a valuation of the assets held by the council. Making depreciation charges to the comprehensive income and expenditure account reflects a charge to services for the use of assets during the year.

41. Accounting for non-current assets is governed by the Chartered Institute of Public Finance and Accountancy's *Code of Practice on Local Authority Accounting in the UK 2019/20* and further interpreted by the *Local Authority Capital Accounting: A Reference Manual for Practitioners*. Over the course of our audit engagement we have encountered errors in the council's processes for accounting for non-current assets. [Exhibit 3](#) sets out issues arising in 2019/20, issues reported in previous years included:

- Incorrect presentation of assets under construction additions and transfers.
- Incompleteness of asset register and accuracy of cost and accumulated depreciation figures.



Recommendation 3

Management should undertake a review of the processes in place for maintenance of the asset register and accounting for non-current assets. The review should also consider what training is needed for both finance staff and relevant staff in resource directorates.

Pension liability

42. In June of 2019 the Supreme Court handed down a judgement on a key pension case, the McCloud case. Essentially, the transitional arrangements of the scheme involved were judged to be discriminatory. The effect of this judgement was to increase the liability of public sector defined benefit schemes. Following the judgement, the Strathclyde Pension Fund actuary recalculated the council's share of the liability increasing it by £27.776 million in 2018/19.

43. Member bodies were advised by Strathclyde Pension Fund, on 14 August 2020, that following a government announcement on the McCloud remedy consultation, there was a potentially material impact on the calculated McCloud liability previously provided for in the 2019/20 financial statements. The actuary's advice was that *"in broadly simple terms, the estimated impact for McCloud may now be less than half of the previously estimated figure"*.

44. As auditors we sought to determine whether, given the advice from the actuary, the impact on the financial statements would breach our materiality tolerance. To do so we looked at the increase attributable to the McCloud case, as advised by the actuary, for 2018/19. We compared half of the difference (50% of £27.776 million = £13.888 million) to our materiality level (£12.804 million). On this basis we concluded that the difference was likely to be material.

45. We requested that the council obtain a revised set of figures for inclusion in the 2019/20 financial statements. The actuary provided revised figures on 20 August 2020 and these were incorporated into the financial statements. The effect on the balance sheet was to reduce the defined pension liability from £366.905 million to £351.027 million.

46. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability. Over the past decade there has been considerable volatility in the valuation of pension liabilities across the public sector. For the council, the movement over the past eight years is set out at [exhibit 4](#). Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

Goodwin employment tribunal ruling

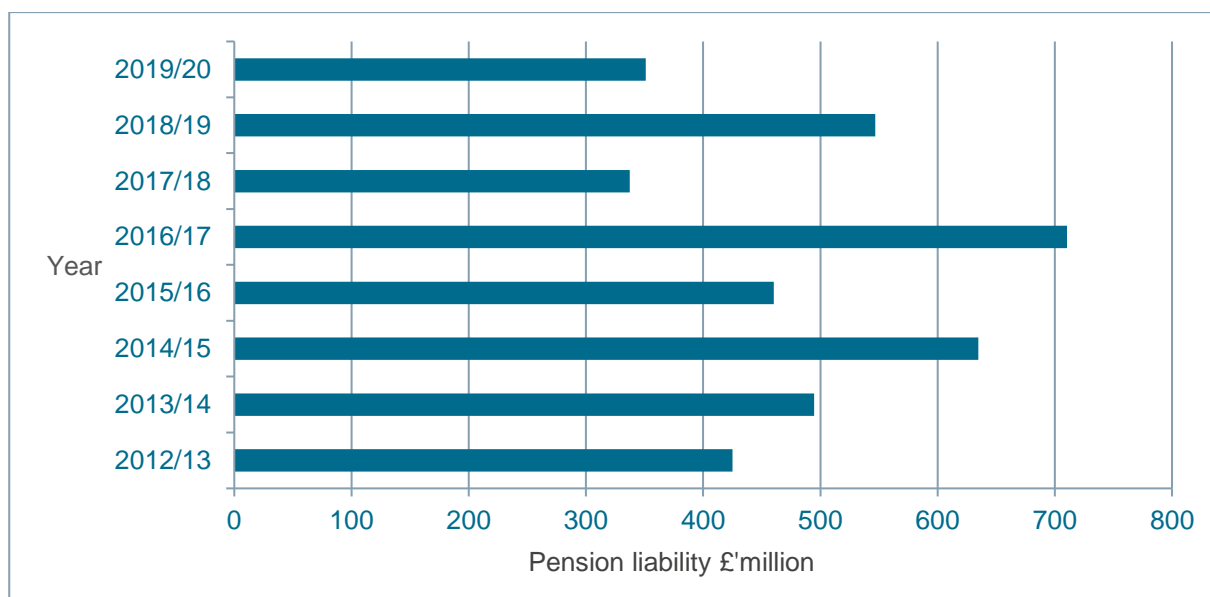
47. A recent employment tribunal ruling regarding changes to the pension entitlement of male survivors of opposite sex marriages will have an impact on the pension liabilities of local government pension funds. The increase in the liabilities has not yet been calculated. In accordance with CIPFA/LASAAC guidance, the council has included a contingent liability in the annual accounts.

Whole of Government Accounts

48. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council is required to provide information in a WGA return and external auditors are required to review and provide assurance on the WGA return. The council submitted its WGA return for audit by the due date of 30 September, this will require amendment following agreement of audited accounts. We will audit the amended return and submit it by the due date of 30 November 2020.

Exhibit 4

Pension fund liability 2012/13 – 2019/20



Source: South Lanarkshire Council annual accounts 2012/13 – 2019/20

Prior year recommendations

49. The council has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [appendix 1](#).

Audit of charities administered by the council

50. Elected members are trustees for 69 trusts administered by the council. Each trust has been included in one of three registered Scottish charities, [exhibit 5](#).

51. As a consequence of the interaction of the Local Government (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.

52. 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 charity's financial position and are prepared 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).

53. We have given an unqualified opinion on the financial statements of the three charities administered by the council and have nothing to report in respect of the other matters.

54. A proposal to modernise the operation of the charities was approved by the Finance and Corporate Resources Committee in April 2018. In December 2019, OSCR approved the modernisation schemes.

55. In early 2020, the council began the process of transferring the assets to the new charities. A first draft of the Transfer Deed had been prepared and work on completing the forms OSCR require for approving the transfer was in progress before it was interrupted by the Covid-19 disruption. As part of our 2020/21 audit we will review the progress and report accordingly.

Exhibit 5

Charities administered by South Lanarkshire Council

Charity	Scottish Charity Number	Net Assets as at 31 March 2020
South Lanarkshire Council Charitable Trusts	SC025089	£822,969
East Kilbride Information Technology Centre Trust	SC015221	£26,943
South Lanarkshire Council Educational Trusts	SC028135	£131,853
Total Net Assets		£981,765

Source: Charities audited accounts 2019/20

Part 2

Financial management



Main judgements

The council has a history of delivering services within budget this is evidence of effective financial management over resource directorate expenditure. Covid-19 had a limited financial impact in 2019/20.

The council has a well-established budget-setting process that supports elected members in scrutinising savings plans.

There have been consistent significant surpluses arising from council tax collection over a number of years. Management should review the methodology for the preparation of council tax income budgets

Financial performance in 2019/20

56. In February 2019 the council approved a revenue budget of £697.285 million for 2019/20. Taking into account additional grant funding and the use of reserves, during the year, the revised revenue budget for 2019/20 was £728.541 million.

57. The council reported an underspend of £16.896 million, prior to any transfers to reserves, against its revised revenue budget for 2019/20. The underspend developed through the year and was reported in revenue budget monitoring reports presented to each meeting of the Executive Committee.

58. The Executive Committee on 24 June 2020 received a report entitled “*Revenue Budget Monitoring Final Outturn and Annual Report and Accounts - 2019/20*”. This identified a surplus of £16.675 million, of which £12.202 million was transferred to the earmarked portion of the council’s general fund and £1.452 million transferred to the council’s other reserves. Following the audit of the accounts a further £0.221 million is available to the general fund reserve.

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

Spend against budget

59. The council has a history of delivering services within budget. In 2019/20 resource directorates delivered services within 0.3% to 2.3% of budget. Set in the context of the total expenditure in each resource area for the year, this is evidence of effective financial management over resource directorate expenditure.

60. Given the timing of the suppression measures, Covid-19 had a minimal impact on the 2019/20 outturn position. The council estimates that the additional cost for 2019/20 was some £0.751 million. This was funded by Scottish Government grants.

Loans fund costs and council tax income

61. In previous annual audit reports, we have commented on a continuous trend of underspends in loan fund costs and greater than budgeted council tax income. These elements had contributed substantially to the unplanned accumulation of reserves. [Exhibit 6](#) provides an analysis of surplus against budget over the past four years and shows that unplanned reserves of some £73.141 million accumulated during that time. In 2019/20 the council recorded further significant surpluses in these areas. Members should ensure that they understand the factors which contribute to the accumulation of unplanned reserves.

Loans fund costs

62. The loans fund operates like an internal bank: it raises money externally and makes advances to council services, typically for large capital projects. The service repays the amount advanced over a specified number of years. The repayment period over which services were required to repay loans, prior to the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, was fixed at the outset and was not changeable.

63. The 2016 regulations allowed flexibility to alter repayment periods subsequent to the initial agreement. Following the clarification of the applicability of the regulations the council resolved, in June 2019, to extend the repayment periods of a number of loans. This yielded savings of some £6.5 million for the financial year 2019/20. Members agreed that this in-year saving should be taken forward to support future years budgets.

64. The remaining underspend is within the expected tolerances of a managed loans fund.

Exhibit 6

Loans fund costs and council tax income budget surpluses 2016/17 – 2019/20

Surplus	2016/17 million	2017/18 million	2018/19 million	2019/20 million	Total million
Loan fund costs underspend	£28.909*	£5.546	£8.703	£8.887	£52.045
Council tax income excess of budget	£6.066	£7.631	£3.138	£4.261	£21.096
Total unanticipated surplus	£34.975	£13.177	£11.841	£13.148	£73.141

**The loan fund costs underspend for 2016/17 included £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 fund costs was £10.609 million.*

Source: Revenue Budget Monitoring Final Outturn reports (2016/17 – 2019/20)

Council tax income

65. In respect of council tax income, the excess income over and above that budgeted consists of two elements. Firstly, the level of billing over the year was greater than originally estimated in the base budget. Around 20% of the excess collected budget was attributable to a lower than expected take up of the council tax reduction scheme.

66. The second element is the collection of arrears previously fully provided for in the accounts. Officers advise that an allowance of £1 million was included for expected collections in respect of years prior to 2018/19, it is not clear how this estimate was calculated.

67. Notwithstanding the need to improve collection estimates, Covid-19 disruption is expected to have a significant impact on council tax income for 2020/21. Financial hardship caused by Covid-19 suppression measures is likely to see an increase in non-payment and an increased volume of applications for relief under the council tax reduction scheme.



Recommendation 4

Management should review the methodology for the preparation of council tax income budgets and ensure that a reasonable estimate, based on historic collection rates, of council tax collection for previous years is included in the preparation of annual budgets.

Other housing

68. Other housing refers to that part of the council's housing provision which does not fall within the boundary of the housing revenue account legislation. Principally it relates to the council's obligation to provide accommodation for the homeless. The costs of other housing provision are charged to the general fund.

69. Outstanding balances due to the council in respect of the provision of homeless accommodation was £9.898 million, this included some £0.924 million in respect of unrecovered housing benefit overpayments. Management have made a bad debt provision for the full amount which includes the total of £0.777 million at [exhibit 7](#)

70. Some of the individual cases are for substantial amounts, [exhibit 7](#). The scale of the outstanding amount represents a considerable potential loss to the council. Management should investigate large arrears balances and ensure that everything is being done to collect amounts due, including ensuring that an adequate level of money and benefit advice is available to individuals.

Exhibit 7

Other housing – amounts over £10,000 outstanding

Amount outstanding	Number of cases	Total outstanding
Between £10,000 and £15,000	48	£545,185
Between £15,000 and £20,000	10	£166,386
Over £20,000	3	£65,080
Totals	61	£776,651

Source: South Lanarkshire Council – rent accounting system

Housing revenue account (HRA)

71. 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.

72. In February 2019, the council approved a 3.95% increase in the average weekly rent levels for tenants for 2019/20.

73. For 2019/20 there was a modest underspend of some £0.240 million on the HRA. The council can use the revenue raised from council tax on second homes to

fund empty homes work, the HRA received income of £0.462 million from this source in 2019/20. As a result, the HRA reserve has increased by £0.702 million and now stands at £9.713 million.

74. As at 31 March 2020 the HRA bad debt provision stood at £9.168 million which includes £0.087 million total at [exhibit 8](#). The council have increased the bad debt provision by £5.860 million for 2020/21. Management have advised that most of the increase is attributable to the expected impact of the continuing roll out of welfare reform and universal credit. The impact of Covid-19 is also being felt, with the council seeing increasing arrears balances at each rent cycle so far in 2020/21.

75. In broad terms, arrears may be categorised between rents for houses and garages; and other outstanding charges (for example rechargeable repairs and factoring charges). As at 31 March 2020 arrears of rent stood at £6.790 million (£2.615 million (39%) attributable to tenants in receipt of universal credit) and other charges at £3.449 million. Further analysis of the figures identified a number of individual cases of significant arrears, [exhibit 8](#).

76. Members do not receive periodic summary analyses of arrears.

Exhibit 8

HRA rent arrears over £10,000

Amount outstanding	Number of cases	Total outstanding
Between £10,000 and £15,000	3	£34,607
Between £15,000 and £20,000	0	0
Over £20,000	2	£52,091
Totals	5	£86,698

Source: South Lanarkshire Council – rent accounting system



Recommendation 5

For both HRA and “Other housing” management should review the policy and procedures for pursuing arrears to ensure that appropriate and timeous interventions are being made. Management should investigate large arrears balances and ensure that everything is being done to collect amounts due. Members should be provided with sufficient information on arrears at each committee cycle to allow them to exercise appropriate oversight.

Support for South Lanarkshire Leisure and Culture Ltd.

77. South Lanarkshire Leisure and Culture Ltd. (SLLC) is a registered charity set up by the council to deliver leisure and cultural services to the citizens of South Lanarkshire. In 2019/20, the council provided financial support of £0.365 million to SLLC's in-year loss of income due to Covid-19 restrictions. This support has been extended into 2020/21. In August 2020, the council's Executive Committee

approved a further payment of £1.269 million to SLLC to cover its lost income for the first 3 months of the new financial year.

78. Depending on government restrictions, it is estimated that for 2020/21 SLLC will lose income of some £12.800 million which will be offset by cost savings of £9.600 million. The net position is therefore likely to be an operational loss of some £3.200 million. The council recognises the important role SLLC plays in the lives of its citizens. However, in the current Covid-19 environment, it is recognised that the sustainability of some services delivered by the trust may need to be considered.

Capital programme

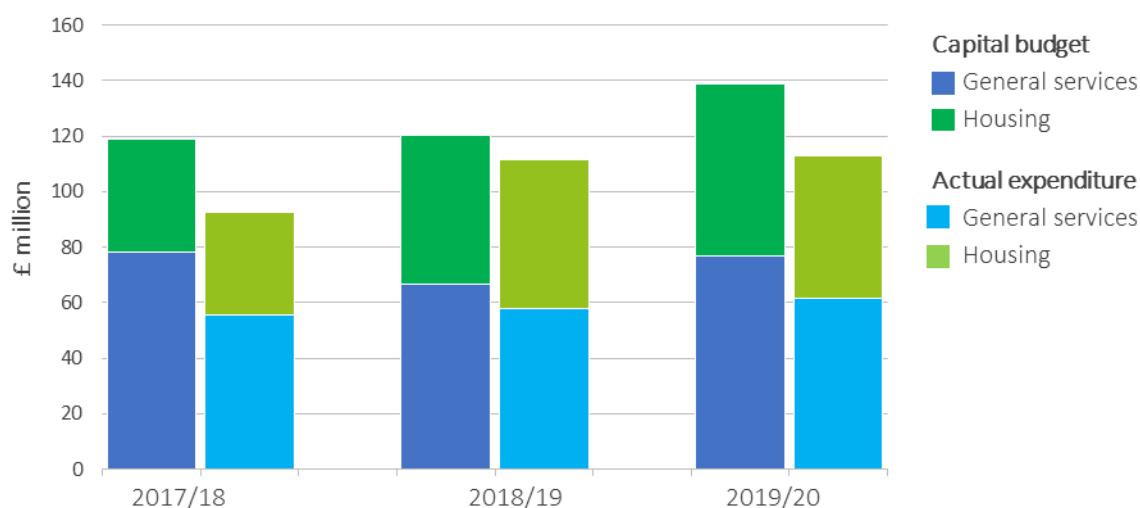
79. The council's capital planning and capital programme were reviewed as part of the Best Value audit of 2018/19. The [Best Value Assurance Report \(March 2019\)](#) concluded that the council's planning process allows it to prioritise the delivery of capital projects that have a direct impact on the lives of its citizens. The capital programme plays a significant role in the economic wellbeing of the area and the achievement of the council's Connect 2017–22 objectives.

80. The council approved a three-year general services capital programme, covering 2017/18 to 2019/20, of £255.9 million in February 2017. Actual expenditure over the three year's was £174.8 million for general services. In addition to this, £142.0 million was spent on the council's housing capital programme during this period, [exhibit 9](#).

81. The Covid-19 disruption had an impact on the delivery of the council's capital programme for the final two weeks of 2019/20, however, management anticipate a more significant impact on the 2020/21 capital programme.

Exhibit 9

Capital programme delivery



Source: South Lanarkshire Council general services and housing capital outturn reports 2017/18 to 2019/20

General services capital programme

82. The total general fund capital budget for 2019/20 was £76.804 million. The council incurred capital expenditure of £61.533 million. This represents an underspend of £15.271 million (20%).

Housing capital programme

83. The total housing capital budget for 2019/20 was £61.835 million. The council incurred capital expenditure of £51.235 million. This represents an underspend of £10.600 million (17%).

Capital programme 2020/21

84. The council approved its 2020/21 general services capital programme of £91.192 million in March 2020 and a housing capital programme of £97.303 million in February 2020. A subsequent review of both programmes was undertaken by management in order to compile a more realistic estimate of what projects could be achieved given the Covid-19 restrictions.

85. At the September 2020 Executive Committee meeting members were provided with an updated 2020/21 capital programme. The revised general services capital programme budget was set at £83.116 million with £11.399 million (14%) having been spent up to period 5 of 2020/21. The revised housing capital programme was set at £48.172 million with £8.991 million (19%) so far having been spent up to period 5 of 2020/21. The delivery of both programmes of work in 2020/21 will be subject to regular review and scrutiny by the Executive Committee.

Part 3

Financial sustainability



Main judgements

As the council reinstates services post Covid-19, it is likely to require, expenditure beyond that in the budget and financial plans will need to be revised accordingly.

The council's long-term financial planning indicates substantial budget gaps in each year to 2026/27 but it has plans in place to address the funding challenges it faces.

Impact of the Covid-19

86. The council approved its 2020/21 revenue budget of £779.667 million (£739.527 million net of specific grants of £40.140 million) in February 2020. The initial gap between proposed spend and available resources, the funding gap, was £41.477 million. Management identified a number of measures to close the funding gap including, the use of £24.115 million of reserves and a 3% increase in council tax yielding £3.900 million. This left resource directorates to find savings of £6.922 million.

87. Estimating the cost to the council of the Covid-19 disruption is complex and subject to revision as central government directions and funding decisions are made. The Executive Director of Finance and Corporate Resources reported that, as at 14 August 2020, the cost to the council of the Covid-19 disruption is estimated as £29.062 million in total. Much of this cost has been defrayed by either unneeded budgets (revenue and capital) or national funds, for example the Scottish Welfare Fund. The net cost to the council is currently estimated at £4.639 million.

88. The Scottish Government Cabinet Secretary for Finance recently wrote to CoSLA indicating that the Chief Secretary to the Treasury had agreed some "flexibilities" to mitigate the immediate financial impact on Scottish councils. Further details are to be brought forward in the form of statutory guidance and a change to statutory regulations, but councils can now plan on the basis that the following flexibilities will be available:

- Capital receipts may be used to finance Covid-19 revenue expenditure.
- Councils will have the flexibility to amend the accounting treatment of debt included in service concession contracts (for example, public private partnership) contracts, thereby reducing charges to services.
- A Loans Fund repayment holiday will permit councils to defer loans fund repayments due to be repaid in either 2020-21 or 2021-22.

89. The Cabinet Secretary also emphasised that the flexibilities should not be seen as an opportunity to maintain or grow reserves. Councils are expected to consider using reserves to meet Covid-19 funding pressures. It is also expected that councils will first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession contracts before taking advantage of a loans fund repayment holiday.

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.

Medium and longer-term financial planning

90. The council's medium and longer-term financial planning was considered as part of our Best Value audit work in 2018/19. The [*Best Value Assurance Report \(March 2019\)*](#) concluded that the council has a good process in place to address the challenges it faces. The financial strategy includes scenario planning and a risk assessment of the likely impact of any changes in assumptions in the medium to long term.

91. The Executive Director of Finance and Corporate Resources presented a report to the Executive Committee of the council in June 2020. The report estimated the 2021/22 budget gap at £52.741 million. The report included a number of options, approved by the Committee, to address the funding gap.

- “Corporate solutions” (this covers carry forward of 2020/21 grant and reduced integration joint board support) £12.948 million.
- Increasing council tax by maximum permitted percentage (4.84%) £6.810 million.
- Use of reserves £16.600 million.
- Loan reprofiling exercise £3.000 million.

Depending on the members' decision on an increase in council tax a gap of between £13 and £20 million would have to be addressed through savings from services.

92. The report also included outline budgets for the five years to 2026/27. Funding gaps totalling £83.299 million are projected. A significant element of the council's strategy to address the funding gap is the use of some £64.900 million arising from the reprofiling of loans repayments by extending the repayment periods.

93. Inevitably there will be additional cost burdens to the council on top of the immediate response to the Covid-19 crisis. As the council reinstates services, this is likely to require, expenditure beyond that in the budget and financial plans will need to be revised accordingly. Updates on how the council's budget is affected in 2020/21 and beyond will continue to be provided through revenue budget monitoring reports.

Reserves

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

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

- a working balance to help cushion the impact of uneven cash flows
- a contingency to cushion the impact of unexpected events
- a means of building up funds, often referred to as “earmarked” reserves to meet known or predicted requirements.

96. The council's reserves strategy does not prescribe a minimum level of reserves that should be maintained. However, the Financial Strategy 2019/2020 to 2021/2022 and Longer-Term Outlook to 2028/2029, which was approved by the Executive Committee in August 2018, states that the council should, when possible, consider allocating any surplus funds to augment the uncommitted general fund levels. The council added £3.021 million to its uncommitted reserve in

2019/20. At 31 March 2020, the unearmarked general fund balance was £40.328 million.

97. The level of usable reserves held by the council saw a net decrease from £117.908 million in 2018/19 to £103.590 million in 2019/20, [exhibit 10](#). Within the general fund reserve the most significant reduction was in the use of funds held for future budget strategies (£9.618 million). A further £5.500 million of capital receipts were transferred from the capital fund in 2019/20.

Earmarked reserves

98. Around half of the general fund reserve is 'earmarked'. This element of usable reserves decreased in 2019/20 to £35.251 million (a reduction of £10.227 million from £45.478 million at 31 March 2019). [Exhibit 11](#) provides an analysis of the general fund over the last five years split between earmarked and unearmarked reserves.

99. The council earmarks funds for future budget strategies as well as specific funding for agreed commitments such as Early Year's and the Pupil Equity Fund. The council is free to re designate earmarked funds as uncommitted, subject to there being no government ring fencing or contractual obligation to use the money for specified purposes.

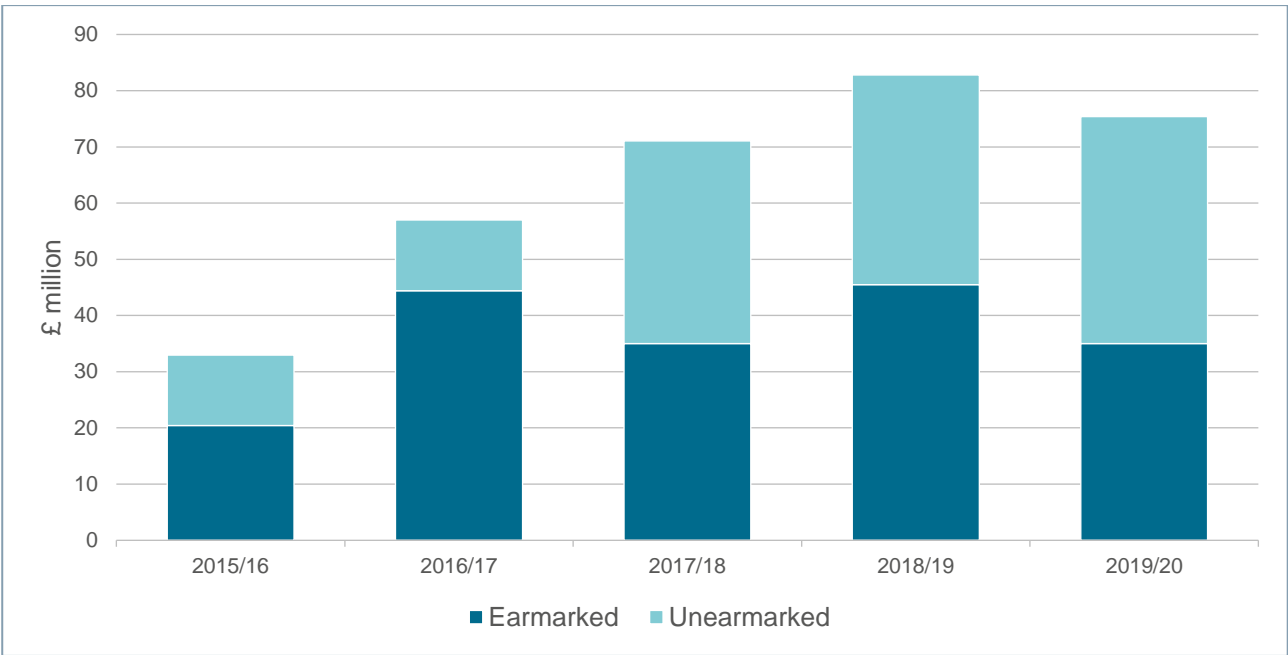
Exhibit 10

South Lanarkshire Council usable reserves

Reserve	31 March 2019 million	31 March 2020 million
General fund	£82.785	£75.579
Housing revenue account reserve	£9.011	£9.713
Repair and renewal fund	£6.929	£5.918
Capital fund	£15.905	£10.327
Insurance fund	£3.278	£2.053
Total usable reserves	£117.908	£103.590

Source: South Lanarkshire Council annual accounts 2019/20

Exhibit 11
Analysis of general fund over last five years



Source: South Lanarkshire Council annual accounts 2015/16 - 2019/20

Part 4

Governance and transparency



Main Judgements

The council's arrangements, both before and after the impact of Covid-19, are appropriate and they support good governance and accountability.

The council was proactive in forming a Covid-19 Recovery Group with representation from a range of stakeholders.

The council conducts its business in an open and transparent manner.

Systems of internal control operated effectively in 2019/20 with scope for improvements in some areas.

Governance arrangements

100. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

101. We commented on council's governance arrangements in our 2018/19 annual audit report and our previous year's conclusion is still relevant, *that "overall the council has effective governance arrangements in place"*. There has been no significant change during 2019/20, except for modified arrangements in response to the Covid-19 disruption.

Covid-19

102. The impact of Covid-19 from March 2020 is set out in the annual governance statement included in the annual accounts. The council took the following steps to ensure an appropriate crisis response to contain and delay the virus and to support vulnerable groups:

- In March 2020, the Chief Executive was granted delegated authority to ensure that the business of the council continued. At the time, committees were not able to meet due to restrictions on movements and gatherings. Decisions were made in consultation with the council's political group leaders and published on the council's website.
- Physical meetings of committees were suspended in March. Online committee meetings resumed in June. Throughout the period, and in line with the council's standard governance arrangements, all meeting papers continued to be published on its website.
- Several service changes were implemented. All council schools closed in March, with hubs operating to provide facilities for children of key workers and vulnerable children. Additional IT equipment and licenses were purchased to allow staff who were able to, to work from home.
- Council staff were redeployed to help with distribution of food to the vulnerable and to provide assistance to the wellbeing helpline for vulnerable people. Staff were also relocated and trained to assist in other areas

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

including pharmacy pickups and queue control at chemists, with drivers relocated to assist in dropping food to vulnerable families.

103. New processes such as the payment of business support grants were implemented. The council's internal audit function providing assurance over these new expenditure streams through a high-level review of the controls in place. As at 27 July the council had awarded grants totalling £41.734 million in support of local businesses.

Good practice

The Chief Executive has issued regular updates to employees to inform them of any changes in council or Government guidelines. Throughout the pandemic, the council's website has provided up-to-date advice and support to citizens, including a useful guide to Covid-19 "scams".

104. In anticipation of the nation's emergence from the Covid-19 restrictions, the council has been planning for short- and long-term recovery. A Covid-19 Recovery Group was established early in the crisis. It consists of senior managers from all council resource directorates, South Lanarkshire Leisure and Culture and the Health and Social Care Partnership. The Recovery Group's planning has four distinct strands:

- Council organisational recovery.
- Support for business recovery.
- Health and Social Care Partnership – learning, influence on service wide redesign.
- Community and voluntary organisations – how to retain the contribution from these groups.

105. A plan was prepared and submitted to the Executive Committee in June 2020. The council Recovery Plan was based on what was known at the time of its development, however, it is recognised as a dynamic document and will be subject to augmentation and modification as new information and priorities emerge. A cross-party Recovery Board has been established to provide monitoring and scrutiny of the Recovery Plan.

Good practice

The council was proactive in forming a Covid-19 Recovery Group with representation from a range of stakeholders. It has developed a council Recovery Plan and established Recovery Board to maintain oversight of progress.

106. We have concluded that the council's arrangements, both before and after the impact of Covid-19, are appropriate and support good governance and accountability.

Audit Scotland Covid-19 briefing papers

107. The Covid-19 environment within which public bodies are currently operating is uncharted territory for both officers and elected members. Audit Scotland has published three short papers aimed at assisting public bodies in addressing some of the potential issues:

- How public audit in Scotland is responding (June 2020) - This briefing paper considers the impact of Covid-19 on the work of public audit in Scotland.

- Covid-19: Emerging fraud risk (July 2020) - This briefing sets out a range of fraud risks emerging from the Covid-19 disruption and what public bodies might do to help reduce these risks.
- Covid-19: Guide for audit and risk committees (August 2020) - This guide focuses on the short-term challenges facing public bodies in the response phase of the pandemic. This guide has been prepared for auditors and public bodies and provides audit and risk committee members with suggested questions to help them effectively scrutinise and challenge in key areas.

108. The papers are available from Audit Scotland's Covid-19 hub at <https://www.audit-scotland.gov.uk/covid-19>.

Transparency

109. 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.

110. 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 also has a Facebook page to provide news and information to local residents.

111. There is evidence from several sources which demonstrate the council's commitment to transparency, including:

- 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.

112. Overall, we concluded that the council conducts its business in an open and transparent manner.

Systems of internal control

113. 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 Committee in June 2020, included recommendations to enhance the existing control system.

114. Our interim audit work was interrupted by the outbreak of Covid-19 and the consequent suppression measures put in place by the UK and Scottish governments. This meant that we were unable to complete our audit testing at the interim stage. However, of the testing we were able to complete, we concluded that the key controls were operating effectively. Our testing did not identify any errors or other issues that would impact on the reliability of the information within the financial statements.

115. Prior to starting our financial statements audit, we were able to conclude on our outstanding interim systems work. No issues were identified from our testing of council tax and housing rents key controls.

Internal audit

116. 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.

117. Audit Scotland's Code of Audit Practice 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.

118. We found internal audit to be operating effectively, and in line with the Public Sector Internal Audit Standards (PSIAS) requirements, therefore we planned to place reliance on aspects of internal audit work. In our '*Review of the adequacy of Internal Audit*' letter that was presented to the Risk and Audit Scrutiny Committee in February 2020, we noted our intention to rely on internal audit's review into procurement practices within the council as part of our 2019/20 audit.

119. 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 to the Risk and Audit Scrutiny Committee in June 2020 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 2020.

Arrangements for prevention and detection of fraud and corruption

120. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

121. We concluded that the council has appropriate arrangements in place for the prevention and detection of fraud and corruption. We are not aware of any specific issues we require to bring to your attention.

Procurement

122. In October 2019 Audit Scotland and Police Scotland published a joint report, [*Red flags – procurement*](#). This document highlights some red flags in procurement activity and the controls that can help to prevent fraud.

123. The council's internal audit function used the report to develop and undertake a review of procurement contracts. Completion of the internal audit review was delayed by absences and redeployment consequent on Covid-19. Internal audit has recently prepared a draft report on the procurement system in Housing and Technical Services, which the Audit and Compliance Manager has shared with us.

124. Internal audit's findings are that adequate assurance was obtained over the controls in place surrounding the award and monitoring of contracts. However, some gaps were found in the full application of the controls. As is normal practice the internal audit report includes an action plan setting out risks and recommendations.

125. In addition to relying on internal audit's work, we assessed the arrangements in place at the council surrounding the declarations made by those involved in procurement, specifically in relation to any conflicts of interest or gifts and hospitality. Our review of a sample of council employees, who work in its procurement function, established that all had completed their annual conflict of interest declaration for 2019/20 and that this was signed off by the individual and their line manager.

126. From the reviews undertaken we have concluded that there are no areas of immediate concern. We will consider the internal audit review again once finalised and an agreed action plan is in place. We will comment in our annual audit plan and interim management report as appropriate.

EU Withdrawal

127. There remains significant uncertainty from the UK's withdrawal from the European Union (EU) for public sector bodies. In 2018/19 we reported that the council has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. In 2019/20 these preparations are continuing.

Part 5

Best Value



Main judgements

The council has made good progress against the action plan arising from the 2019 Best Value Assurance Report, demonstrating the council's commitment to delivering Best Value through continuous improvement. Further progress has been slowed by the Covid-19 disruption.

Performance, measured by the Local Government Benchmarking Framework indicators for 2018/19, remained relatively stable.

The council has satisfactory arrangements in place to ensure it meets its responsibilities under the Equality Act 2010.

Best value

128. The [Best Value Assurance Report \(March 2019\)](#) (BVAR) for South Lanarkshire Council reported that the council has strong leadership, clear direction, a strong culture of continuous improvement and concluded that it is a well performing council. "We are pleased to note the council continues to demonstrate all of these elements and is making significant progress in fulfilling its duty of Best Value, and outcomes are improving for citizens."

129. The BVAR contained ten improvement recommendations, in areas including how community engagement is used to shape services, the role of the Community Planning Partnership Board and the need for elected members to review their training needs. On 26 June 2019, the council considered the BVAR and approved a comprehensive [action plan](#), in response to the recommendations.

130. The Controller of Audit will consider the results of our follow up work, and report to the Accounts Commission on progress made.

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

Progress against BVAR recommendations

131. [Exhibit 12](#) sets out our view on the progress made against the BVAR recommendations. Progress has been made against all ten recommendations, demonstrating the council's commitment to delivering Best Value through continuous improvement. The most recent comprehensive update provided to the Performance and Review Scrutiny Forum was in February. Understandably progress and reporting have been affected by Covid-19 disruption although there are clear signs that things are moving forward, for example, on Community Planning and locality plans. We will continue to monitor progress against the recommendations as part of our 2020/21 audit.

Exhibit 12

Progress against BVAR recommendations

BVAR recommendation	Audit Scotland view on progress to date
1. To increase the impact of the council's efforts in achieving its strategic objectives, links between the council plan (Connect Plan) and the LOIP (Community Plan) should be made clearer with a sharper focus on the key areas of activity. Locality plans should be prepared without further delay.	<p>Ongoing</p> <p>A "Plan on a Page" has been developed mapping the links between the Council Plan and the Community Plan.</p> <p>A mid-term review of Council Plan was undertaken the findings of which were presented to the Executive Committee in June 2020. The revised Council Plan includes clearer links to the key actions in the Community Plan. Management have advised that consideration is being given to further align the Council and Community Plans.</p> <p>Since the publication of the BVAR report 11 Community Action Plans (Our Place, Our Plan) have been published with a further six under development.</p>
2. Management should carry out the staff survey and use the results to drive improvement and share existing good practice.	<p>Ongoing</p> <p>The council undertook an employee survey with 4,053 responses received by the end of December 2019. Results have not yet been reported to members.</p> <p>Management has developed a good practice hub that allows staff to access examples of good practice from different resource directorates.</p>
3. Elected members need to improve the public scrutiny of key decisions, performance and financial reports.	<p>Ongoing</p> <p>The Risk and Audit Scrutiny Committee receives regular reports from both internal and external audit but the committee's consideration of their findings and recommendations remains limited. There is scope for the committee to provide greater scrutiny and challenge to officers on these key governance areas.</p>
4. Members should, with the assistance of the personnel service, review their personal training and development needs and agree a plan to ensure that they have the skills required to effectively fulfil their scrutiny and challenge roles.	<p>Ongoing</p> <p>A training needs analysis was completed by 20 members, indicating their individual learning choices and preferred method of learning. Management have advised that this information along with regular core training and awareness briefings helped to inform a programme of training.</p> <p>Covid-19 has impacted on this year's planned programme however the Human Resource service has provided alternative IT based solutions to ensure that members have continued access to learning and development opportunities.</p>

BVAR recommendation	Audit Scotland view on progress to date
<p>5. Management should ensure that the indicators used to measure performance provide meaningful information and are appropriate to the reporting level.</p>	<p>Complete</p> <p>The corporate template for resource directorate plans and associated guidance was reviewed and simplified for 2020/21 with the aim of keeping plans short, sharp and focused on priority outcomes and actions.</p> <p>There is evidence that this has resulted in more focussed performance information. This will help improve the consistency and relevance of the performance reporting framework across the council.</p> <p>The next round of resource planning is due to commence soon. Management have advised that they will look to refine the plans further still and aim to move the publication to Spring to align with budget decisions.</p>
<p>6. Management should review arrangements for assessing resident satisfaction, to ensure these are providing meaningful data to help shape future services.</p>	<p>Ongoing</p> <p>There is evidence of consultation taking place that in turn shapes the direction of council services.</p> <p>The council has recently reported to its Education and Resource Committee on its children and young people and parent/carer surveys regarding Covid-19 experiences and return to school. The findings for each school were shared directly with head teachers to enable them to provide appropriate support to children, young people and families prior to them returning to school.</p>
<p>7. The Community Planning Partnership Board should take a more active role in driving partnership working, monitoring outcomes and feeding back to thematic subgroups.</p>	<p>Ongoing</p> <p>We have found clear evidence that the Community Planning (CPP) Partnership Board is becoming a more strategic board, providing oversight of partnership activity and setting the direction of travel. A Community Planning Conference was held in December 2019 with the aim of fostering connections and sharing learning and resources between local organisations and increasing Community Planning Partnership Members' awareness of local activity. A follow up conference scheduled for May 2020 was postponed due to Covid-19. Further actions taken are:</p> <ul style="list-style-type: none"> • Board meetings are now open to the public. • A review of the CPP structure has been undertaken. • A review of the board's current membership has been undertaken. • Development sessions have been held prior to formal board meetings. • A Community Engagement and Participation Strategy 2020-2025 has been developed and approved.

BVAR recommendation	Audit Scotland view on progress to date
8. The council should review existing governance structures to ensure that they support community-based activity.	<p>Ongoing</p> <p>At a special meeting of the council in February 2020, members approved revised Terms of Reference for the council's Area Committees. Due to Covid-19, the revised terms are still to be implemented with the Area Committees not meeting during lockdown. Arrangements are in place to progress this over the coming months.</p>
9. Management should formulate a digital inclusion strategy to complement the council's digital strategy.	<p>Complete</p> <p>During 2019 a citizen survey conducted by the council gathered information on digital exclusion. The survey informed a suite of solutions and approaches to tackle digital exclusion that the council's Digital Inclusion Sub-Group agreed upon.</p> <p>The council's new Digital Inclusion Strategy 2020 - 2023 was approved by the Finance and Corporate Resources Committee in May 2020. The Strategy has the following actions to progress in 2020/21:</p> <ul style="list-style-type: none"> • Internet access • Affordability • Digital skills • Council services.
10. Management should implement revised arrangements for community engagement to improve how it is used to shape services. Consistent and high-quality consultation across all services should be part of this.	<p>Ongoing</p> <p>The Community Planning Partnership Board have approved the establishment of a Community Engagement Partnership Group to ensure that links are made across locality structures. The group's remit is extensive but includes:</p> <ul style="list-style-type: none"> • ensuring consistency of approach to engagement with communities; • co-ordination of engagement activity at community level; • identifying and sharing the resources required to deliver the aspirations of the CPP; • development of a programme of peer learning and share good practice.

Source: Audit Scotland

Reporting of performance

Statutory performance indicators (SPIs)

132. 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.

133. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report on two statutory performance indicators:

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

134. Performance against resource measures is reported to the appropriate resource committee and performance against corporate measures is reported to the Performance and Review Scrutiny Forum. Progress reports submitted to the Performance and Review Scrutiny Forum include a summary of performance against measures for each of the council's Connect objectives, along with details of the main achievements for that objective. Our work in 2019/20 has confirmed that these reporting arrangements remain in place and that the council's website covers all the requirements set out in the SPI direction issued by the Accounts Commission.

Local Government Benchmarking Framework

135. 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.

136. The most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service was submitted to the council's Performance and Review Scrutiny Forum in February 2020 along with a council specific action plan. Details of the council's trend over the past three years against these performance indicators can be seen at [exhibit 13](#).

Exhibit 13

South Lanarkshire Council analysis of LGBF results

KEY:		Number of Indicators		
		2016/17	2017/18	2018/19
↑	Improving performance in SLC	38 (52%)	32 (40%)	34 (38%)
↓	Declining performance in SLC	28 (38%)	35 (44%)	34 (38%)
↔	No change in performance in SLC	2 (3%)	2 (2%)	3 (3%)
	Information not available	5 (7%)	11 (14%)	18 (24%)

✓	SLC results better than Scottish average	39 (53%)	39 (49%)	44 (49%)
X	SLC results worse than Scottish average	28 (37%)	28 (35%)	28 (32%)
↔	SLC results the same as Scottish average	2 (3%)	2 (2%)	3 (3%)
	Information not available	5 (7%)	11 (14%)	14 (16%)

Source: Performance and Review Scrutiny Forum (February 2020) and Local Government Benchmarking Framework, Improvement Service, 2019/20.

137. The council's performance in 2018/19 remained relatively stable when compared with the prior year. The council has an improvement action plan for each of the indicators.

Fairness and equality

138. The Equality Act 2010 came into force in 2011. The Act included a public sector general duty, which requires that public authorities have 'due regard' to how policies or decisions affect people who are protected under the Act and the advancement of equality of opportunity. In 2012 Scottish Ministers made regulations that placed specific duties on Scottish public bodies to help them meet the general duty.

139. South Lanarkshire Council is a listed authority for both the Equality Act and the Specific Duties in Scotland. Consequently, it is required to report progress on mainstreaming the public sector equality duty and to report progress on its published equality outcomes.

140. The council's [*Best Value Assurance Report \(March 2019\)*](#) concluded that it has shown a commitment to dealing with staff fairly and equitably. Some examples of the council's commitment to dealing with staff in a fair and equitable manner include:

- effective working relations and open communication with trade unions
- first local authority in Scotland to introduce a menopause policy
- running transgender awareness sessions for managers and head teachers to help them understand how they can better support trans staff and pupils
- use of a disability partnership to ensure that changes in services reflect the needs of disabled citizens and employees and do not exclude any groups.

141. The South Lanarkshire Council [*Mainstreaming Equalities – Progress report 2017-2019*](#) was presented to the Executive Committee on 29 May 2019 and is published on the council's website. The report provides a detailed overview of the council's work on equality, focusing on reducing significant inequalities, compliance and accountability. The report contains the required information on employment equalities and the gender pay gap.

142. Our work in 2019/20 also identified a range of other activities across the council that address the other requirements of the Equality Act, these include:

- Consideration of equal opportunities and fairness in the budget-setting process, with citizens, employees, unions and elected members able to take part in a consultation to express their views on the proposed budget.
- Completion of equality impact assessments (EIAs) for all new and developing policies. EIAs consider how a policy or function will affect the wellbeing of different groups of people, with particular needs, or who are disadvantaged in some way.
- Preparation of British Sign Language (BSL) Plan – The council, together with North Lanarkshire Council and NHS Lanarkshire, have developed a [*Shared British Sign Language Plan for Lanarkshire 2018-2024*](#) to enable BSL users to be fully involved in public life.

143. Overall, we concluded that the council has satisfactory arrangements in place to ensure that it meets its statutory responsibilities.

Website accessibility

144. The Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018 have been introduced to improve the accessibility of public sector websites and mobile apps. The regulations build on the obligations of public sector bodies equalities duties and require public sector websites and mobile apps to be more accessible by making them ‘perceivable, operable, understandable and robust’.

145. A website or app will meet requirements of the regulations if:

- it meets the criteria set out in the international Web Content Accessibility Guidelines (WCAG)
- an accessibility statement is published.

146. The council makes use of an external reviewer, specialising in website testing and governance software, to assess its continued compliance with the regulations. The external review identified a limited number of areas for improvement. The council has put in place arrangements to address these points.

147. The external assessment has verified the council’s compliance with the new regulations and an accessibility statement has been published on the website.

National performance audit reports

148. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [appendix 3](#).

149. During 2019/20 we noted that all relevant national reports, including [the Local government in Scotland: Financial overview 2018/19](#) report, were taken to the Risk and Audit Scrutiny Committee 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 the national reports.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Credit balances</p> <p>Credit balances totalling £0.412 million were included in the year end sundry debtors balance. Some credit balances appeared to relate to a corresponding sundry debtor.</p> <p>Risk</p> <p>Income is not being correctly matched to invoices.</p>	<p>Management should undertake a frequent review and clear out of credit balances, and where appropriate apply the balance to the relevant outstanding sundry debtors.</p>	<p>Agreed. A new process has been established to review the credit balances, and their allocation to the relevant outstanding accounts, on a regular basis through the year.</p> <p>Head of Finance (Transactions)</p> <p>End March 2021.</p>
2	<p>Asset register – fully depreciated assets</p> <p>Where assets are no longer in use they should be formally scrapped or sold. Assets continuing in use should be revalued and depreciated over the remaining useful economic life.</p> <p>Risk</p> <p>Depreciation charges are not being correctly made to user services.</p>	<p>Where fully depreciated assets are still in use they should be revalued and depreciated over their remaining useful economic life.</p>	<p>Agreed. An action plan to revalue the assets that have been fully depreciated, and to reset their remaining useful life where appropriate, is in place.</p> <p>Head of Finance (Strategy)</p> <p>End March 2021.</p>
3	<p>Accounting for non-current assets</p> <p>Over the course of our audit engagement we have encountered errors in the council's processes for accounting for non-current assets.</p> <p>Risk</p> <p>The asset register is not accurate. Appropriate charges are not being made to user services.</p>	<p>Management should undertake a review of the processes in place for maintenance of the asset register and accounting for non-current assets. The review should also consider what training is needed for both finance staff and relevant staff in resource directorates.</p>	<p>Agreed. A review of the Fixed Asset Register and its accounting will take place during the year.</p> <p>Detailed guidance will also be issued across Resources and training supplied where necessary.</p> <p>Head of Finance (Strategy)</p> <p>End January 2021.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>Council tax collection</p> <p>Only expected collection for current and previous financial years are included in the annual collection estimate. No allowance is made for collections for previous years.</p> <p>Risk</p> <p>Inaccurate estimates of council tax collection reduce members' options when considering the setting of the annual budget.</p>	<p>Management should ensure that a reasonable estimate of council tax collection for prior years is included in the preparation of annual budgets.</p>	<p>Agreed. A budget for arrears payments is already included in the Council Tax estimates for the year. Given the current global pandemic, and the impact on the economy, it is not considered that increasing the level of arrears budget would be appropriate for 2021/22.</p> <p>Head of Finance (Strategy)</p> <p>Complete</p>
5	<p>Arrears of rent and other housing charges</p> <p>These charges amount to some £20.137 million in total.</p> <p>There are a number of individual arrears balances for substantial amounts.</p> <p>Members receive little information on the arrears position.</p> <p>Risk</p> <p>Arrears are not being pursued in accordance with agreed policy and procedures.</p> <p>The collection of high and escalating arrears balances become increasingly unlikely.</p> <p>Members are unaware of the nature and scale of underlying balances.</p>	<p>Management should review the policy and procedures for pursuing arrears to ensure that appropriate and timeous interventions are being made.</p> <p>Management should investigate large arrears balances and ensure that everything is being done to collect amounts due.</p> <p>Members should be provided with sufficient information on arrears at each committee cycle to allow them to exercise appropriate oversight.</p>	<p>The council has robust processes in place including a range of interventions to ensure that it remains high performing in the collection of rent and the management of arrears. We will further review these in light of the auditor's comments, to determine any improvement actions needed. Arrears performance is reported to committee as part of performance reporting</p> <p>Head of Housing Services</p> <p>End March 2021.</p>

Follow up of prior year recommendations

6	<p>Duplicate entries in the year-end sundry debtors print.</p> <p>Risk</p> <p>Entries to the financial statements cannot be satisfactorily verified.</p>	<p>Management should further investigate the reasons for the running of this print job and ensure that the relevant staff have adequate written procedures for year-end closedown of debtors.</p> <p>Management should remind all relevant staff /suppliers that a system download should be taken at 31 March each year</p>	<p>Complete</p> <p>Internal audit found that the debtor's control account reconciliation was robust but that the year-end process needed improvement. These risks have now been addressed by revised year-end processes and procedures, developed (jointly)</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
		to ensure that data is available to support the preparation and audit of the financial statements	by internal audit and the Service. We reviewed the 2019/20 year-end sundry debtors print and found no evidence of duplicate entries.
7	<p>The management commentary complies with guidance but could be further improved to provide a more user-friendly exposition of the council's performance.</p> <p>Risk</p> <p>Stakeholders are unable to easily understand the council's performance</p>	The council should consider a review of the presentation of information in the management commentary for future years.	<p>Ongoing</p> <p>There remains scope for further improvement in the overall presentation. A reduction of the use of technical language and a greater emphasis on "plain English" would increase transparency and improve access for both external and internal users.</p>
8	<p>A business case was prepared to support the loans fund reprofiling proposal, but this was not provided to members.</p> <p>Risk</p> <p>The information provided to members is not sufficient to allow them to effectively scrutinise the proposal.</p>	Management should ensure that the business case for future reprofiling exercises is provided to members.	<p>Complete</p> <p>Management presented members with the full business case for the proposed 2020/21 loans fund reprofiling exercise.</p>
9	<p>Payroll overpayment reports to 31 March 2019 had a total value of £0.248 million.</p> <p>Risk</p> <p>Payroll overpayments that are not recovered will result in financial loss to the council and potentially attract bad publicity through the media.</p>	Management should continue to review the processes in place to prevent, detect and recover payroll overpayments.	<p>Ongoing</p> <p>Total overpayment amount has decreased. This is an ongoing process for management.</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
Risks of material misstatement in the financial statements		
1 Risk of management override of controls Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business	Results Journal adjustments were tested, and no indications of management override of controls were found. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. This included considering the impact of Covid-19 on year-end valuations (See point 4 below). We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year. We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business. Conclusion: Satisfactory
2 Risk fraud over income recognition Auditing standards assert that fraud over income should be presumed to be a significant risk in any audit.	Testing the operation of key controls over council tax, non-domestic rate and housing rent income. Detailed testing of income transactions. Analytical procedures on income streams	Results Our testing of income controls did not identify any issues. Satisfactory results obtained from our testing of income transactions. We obtained satisfactory explanations for any significant increases or decreases in income. Conclusion: Satisfactory

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>Auditing standards assert that fraud over expenditure should be presumed to be a significant risk in any audit.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Walkthrough of controls over expenditure systems.</p> <p>Reliance on internal audit's review into procurement.</p> <p>Audit of grants.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Analytical procedures on expenditure streams.</p>	<p>Results</p> <p>We concluded that the council is proactive in following up NFI matches.</p> <p>Our testing of expenditure controls did not identify any issues.</p> <p>No control weaknesses were identified in relation to grant schemes.</p> <p>Satisfactory results obtained from our testing of expenditure transactions.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Conclusion: Satisfactory</p>
<p>4 Estimation and judgments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of some significant balance sheet assets/liabilities.</p> <ul style="list-style-type: none"> • Valuations on non-current assets rely on expert valuations and management assumptions. • The value of the council's pension liability is an estimate based on information provided by management and actuarial assumptions. • The council's provision for doubtful debts is based on management assessments of the recoverability of debts. <p>Risk</p> <p>Valuations of assets /liabilities are materially misstated.</p>	<p>Review of the work of the valuer and actuary.</p> <p>Focused substantive testing of classification and valuation of assets.</p> <p>Review appropriateness of actuarial assumptions.</p> <p>Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.</p> <p>Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience.</p> <p>Review actual experience of significant estimates made in the prior year.</p>	<p>Results</p> <p>Our review of the work of the council's valuation team confirmed the appropriateness of the methodology and assumptions used.</p> <p>We considered the work undertaken by management and its expert valuers in light of the Covid-19 pandemic and considered the impact on the year-end valuations (Exhibit 3, point 1).</p> <p>We assessed the reliability of the actuary and reviewed their work. No issues were noted.</p> <p>Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. This included verification of pension entries in audited accounts to revised IAS19 report reflecting the impact the actuary's revision to the McCloud ruling.</p> <p>We undertook a review of the council's provision for the impairment of debtors and concluded that the methodology applied by management was reasonable and consistent with prior years.</p> <p>Conclusion: Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>5 2020/21 budget setting</p> <p>The timing of budget setting for the public sector has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax.</p> <p>Risk</p> <p>Budget does not reflect the final settlement and further in-year savings need to be made.</p> <p>Council tax level is not set by statutory date of 11 March.</p>	<p>Review of the council's 2020/21 budget setting arrangements.</p>	<p>Results</p> <p>The 2020/21 budget was considered by members prior to the statutory deadline.</p> <p>In light of Covid-19 there is a need for ongoing monitoring of the 2020/21 budget.</p> <p>Conclusion: Satisfactory</p>
<p>6 Revenue budget – loans charges and council tax income</p> <p>Loans charges and council tax income are set and controlled at corporate level. In the previous three years we reported on a trend of underspends in loan charges and greater than budgeted council tax income.</p> <p>Risk</p> <p>These budget lines continue to have excess budget allocated to them potentially denying the use of resources elsewhere.</p>	<p>Review financial monitoring reports and the year end outturn against budget.</p>	<p>Results</p> <p>Similar issues have been identified in 2019/20 and we have again commented in the body of this report and included action plan points at appendix 1.</p> <p>Conclusion: Improvement noted but will continue to monitor over the remainder of the audit engagement.</p>
<p>7 Extending Loans Fund repayment periods</p> <p>In 2018/19, the council extended the repayment periods for a number of loans. A business case was prepared to support the extension proposal. A summary of the business case was included in the final outturn report submitted to members. The full business case was not provided to members.</p> <p>Risk</p> <p>There is a risk that members are not provided with an adequate level of information to allow them to scrutinise and challenge loan extension proposals.</p>	<p>Review the information provided to members.</p> <p>Confirm reprofiled loans are correctly reflected within the 2019/20 accounts.</p>	<p>Results</p> <p>Our discussions with management during the year established that the council were no longer seeking to re-profile the loans fund in 2019/20, instead this would now be pursued in 2020/21.</p> <p>Our work on the annual accounts confirmed that no re-profiling exercise had been undertaken in 2019/20.</p> <p>Conclusion: Satisfactory</p>

Appendix 3

Summary of national performance reports 2019/20

 2019/20 Reports		
	Apr	
Social security: Implementing the devolved powers	 May	
Scotland's colleges 2019	 Jun	 Enabling digital government
	Jul	
NHS workforce planning - part 2	 Aug	
Finances of Scottish universities	 Sept	
NHS in Scotland 2019	 Oct	
	Nov	
Local government in Scotland: Financial overview 2018/19	 Dec	
Scotland's City Region and Growth Deals	 Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
	Feb	
	Mar	 Early learning and childcare: follow-up

South Lanarkshire Council

2019/20 Annual Audit Report

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Report

3

Report to: **Risk and Audit Scrutiny Committee**
 Date of Meeting: **16 November 2020**
 Report by: **Executive Director (Finance and Corporate Resources)**

Subject: **Audited Annual Accounts 2019/2020**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise members of the requirement to approve the Annual Accounts 2019/2020 for signature, both Council and related Charitable Trusts.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the South Lanarkshire Council Accounts 2019/2020 and the Charitable Accounts have received a clean audit certificate, be noted;
- (2) that the audited South Lanarkshire Council Accounts 2019/2020 and the Charitable Trusts' Accounts be approved for signature;
- (3) that be noted that the External Auditor's Report will be referred to South Lanarkshire Council for information; and
- (3) that be noted that the Audited Accounts 2019/2020 will be available on the Council's website (section 3.3).

3. Background

- 3.1. Following the publication of The Local Authority Accounts (Scotland) Regulations 2014, the members of the Committee have to meet to consider whether to approve the Audited Annual Accounts for signature, no later than the 30 September 2020. Due to COVID-19 pandemic, the Scottish Government introduced legislation which allowed this deadline to be extended to 30 November.
- 3.2. The members are also required to have regard to any report made or advice provided on the Annual Accounts by the External Auditor.
- 3.3. The External Auditor's Report was included as an earlier report to this meeting and will be referred to the meeting of South Lanarkshire Council (16 December 2020) for information.
- 3.4. Copies of the (unsigned) Audited Accounts 2019/2020, for both the Council and Related Charities, have been emailed to members of this Committee under separate cover. Copies of the Council's Audited Accounts, the Charitable Trusts' Audited Accounts and the External Auditor's Report, will be issued to all Elected Members for their information.

- 3.5. Once signed, the Audited Accounts will be available to the general public on the Council's website and due to COVID-19 restrictions, we can arrange to send a copy out to anyone who requests them rather than them being available on the 4th Floor, Council Offices, Almada Street, Hamilton.

4. Audited Accounts – South Lanarkshire Council

- 4.1. As noted in section 3.1, members of the Committee are required to approve the Audited Accounts for signature. A copy of the Audited Accounts for 2019/2020 have been emailed to Members of this Committee under separate cover.
- 4.2. As detailed in a previous report, the Council's External Auditors, Audit Scotland, have completed an audit which extends across the 2019/2020 Accounts and related matters.
- 4.3. The report notes that the External Auditor has provided a clear Audit Certificate with no qualifications on the Council's Accounts.
- 4.4. The External Auditor's Report also includes an agreed action plan at Appendix 1. Officers of the Council will work to ensure that these actions are implemented during 2020/2021.

5. Audited Accounts – Charitable Trusts

- 5.1. Members of the Committee are required to approve the Charitable Trusts' Audited Accounts for signature. A copy of the Audited Accounts for 2019/2020 have been emailed to Members of this Committee under separate cover.
- 5.2. The External Auditor also reports on the 3 Charitable Trusts managed by the Council: South Lanarkshire Council Educational Trust, South Lanarkshire Council Charitable Trust and the East Kilbride Information Technology Trust.
- 5.3. The External Auditor's report shows a clear audit certificate for each Trust.

6. Employee Implications

- 6.1. There are no direct employee implications from this report.

7. Financial Implications

- 7.1. There are no direct financial implications arising from this report. The Annual Accounts received a clear audit certificate. The main changes to the Council's Accounts 2019/2020 are detailed in the External Auditor's report. These did not impact on the Council's in-year outturn position for 2019/2020, as reported to Executive Committee in June 2020.

8 Climate Change, Sustainability and Environmental Implications

- 8.1 There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

9 Other Implications

- 9.1 The main risk associated with the Council and Charitable Annual Accounts is a qualified audit report. The risk has been assessed as low due to the detailed preparation in relation to the year end process, technical training undertaken by key finance staff and the roll out of this to Resource finance staff as appropriate. Finance and Resources work together to achieve key deadlines and actions set from timetables.

10 Equality Impact Assessment and Consultation Arrangements

- 10.1 This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.
- 10.2 There is also no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

6 November 2020

Link(s) to Council Values/Ambitions/Objectives

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ None

List of Background Papers

- ◆ South Lanarkshire Council Annual Accounts 2019/2020 and External Auditor's Report.
- ◆ Charitable Trusts' Annual Accounts 2019/2020 and External Auditor's Report.
- ◆ Financial Ledger 2019/2020 and associated working papers.

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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