



Council Offices, Almada Street
Hamilton, ML3 0AA

Monday, 10 September 2018

Dear Councillor

Risk and Audit Scrutiny Committee

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

Date: Tuesday, 18 September 2018

Time: 14:00

Venue: Committee Room 2, Council Offices, Almada Street, Hamilton, ML3 0AA

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

Members are reminded to bring their fully charged tablets to the meeting

Yours sincerely

Lindsay Freeland
Chief Executive

Members

Graeme Campbell (Chair), Poppy Corbett, Maureen Devlin, Mary Donnelly, Mark Horsham, Martin Lennon, Julia Marrs, Carol Nugent, Margaret B Walker, Jim Wardhaugh

Substitutes

Janine Calikes, Margaret Cowie, Isobel Dorman, Lynne Nailon, Bert Thomson, Jared Wark

BUSINESS

1 Declaration of Interests

- 2 **Minutes of Previous Meeting** 3 - 10
Minutes of the meeting of the Risk and Audit Scrutiny Forum held on 13 June 2018 submitted for approval as a correct record. (Copy attached)

Monitoring Item(s)

- 3 **External Auditor's Annual Report to South Lanarkshire Council** 11 - 82
Letter and report dated 18 September 2018 by Audit Scotland, External Auditors to the Council. (Copy attached)

Item(s) for Decision

- 4 **Audited Annual Accounts 2017 - 2018** 83 - 86
Report dated 7 September 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)

Item(s) for Noting

- 5 **Internal Audit Activity as at 29 August 2018** 87 - 96
Report dated 29 August 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 6 **The National Fraud Initiative 2016** 97 - 106
Report dated 29 August 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 7 **Fraud Statistics Annual Report 2018** 107 - 112
Report dated 31 August 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 8 **Forward Programme for Future Meetings** 113 - 116
Report dated 4 September 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)

Urgent Business

- 9 **Urgent Business**
Any other items of business which the Chair decides are urgent.

For further information, please contact:-

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Clerk Telephone: 01698 454108

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

RISK AND AUDIT SCRUTINY FORUM

2

Minutes of meeting held in Committee Room 2, Council Offices, Almada Street, Hamilton on 13 June 2018

Chair:

Councillor Graeme Campbell

Councillors Present:

Poppy Corbett, Mary Donnelly, Isobel Dorman (*substitute for Councillor Marrs*), Mark Horsham, Martin Lennon, Carol Nugent, Margaret B Walker

Councillors' Apologies:

Monique McAdams, Julia Marrs, Jim Wardhaugh

Attending:

Finance and Corporate Resources

P Manning, Executive Director (Finance and Corporate Resources); Y Douglas, Audit and Compliance Manager; S Dunsmore, Insurance and Risk Manager; T Little, Head of Corporate Communications and Strategy; P MacRae, Administration Officer; G McCann, Head of Administration and Legal Services; J Taylor, Head of Finance (Strategy); B Teaz, Head of Information Technology

Also Attending:

Audit Scotland

D Richardson and R Smith, External Auditors

Order of Business

The Forum decided: that the items of business be dealt with in the order minuted below.

1 Declaration of Interests

No interests were declared.

2 Minutes of Previous Meeting

The minutes of the meeting of the Risk and Audit Scrutiny Forum held on 21 March 2018 were submitted for approval as a correct record.

The Forum decided: that the minutes be approved as a correct record.

3 Internal Audit Annual Assurance Report 2017/2018

A report dated 24 May 2018 by the Audit and Compliance Manager (Finance and Corporate Resources) was submitted providing:-

- ◆ a summary of progress and performance of Internal Audit for the financial year 2017/2018
- ◆ an opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems based on audit work undertaken in 2017/2018

Details were given on:-

- ◆ Internal Audit performance
- ◆ Council-wide performance in relation to the delivery of audit actions
- ◆ workload analysis
- ◆ links to the Council's objectives and top risks
- ◆ management of fraud risks
- ◆ financial controls and findings
- ◆ operational controls and findings
- ◆ areas of external reliance

The overall opinion expressed was that a reasonable level of assurance could be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2018. The Internal Audit findings would inform the Council's 2017/2018 Governance Statement.

A summary of the report would be submitted to the meeting of the Executive Committee to be held on 27 June 2018.

The Forum decided:

- (1) that the positive Internal Audit performance during 2017/2018 be noted;
- (2) that the level of assurance on the Council's control environment be noted; and
- (3) that it be noted that the overall findings from Internal Audit work would inform the Council's 2017/2018 Annual Governance Statement.

[Reference: Minutes of 20 September 2017 (Paragraph 5)]

4 Review - Code of Corporate Governance and Annual Governance Statement

A report dated 15 May 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the evaluation of the 2016/2017 Annual Governance process including changes made to the Local Code of Corporate Governance and the Annual Governance Statement.

On completion of the 2016/2017 Annual Review of Governance Arrangements, representatives of the Governance Group undertook a full review of the process and the associated documentation.

The review had been completed in accordance with the principles and requirements contained within the new framework and took into account feedback from the Council's external auditor. Key outcomes identified by the review were detailed in the report.

To ensure that the Council's Governance Arrangements complied fully with the principles contained in the CIPFA/SOLACE framework, a new Local Code of Corporate Governance had been developed to meet those requirements.

The new Code of Governance document, which had been structured into 2 sections, was attached as Appendix 1 to the report. The document would provide the structures and guidance that elected members and employees would require to ensure effective governance across the Council.

A new Corporate Governance template had been developed for the 2017/2018 Annual Governance Statement. The new template would make clear linkages with the CIPFA/SOLACE framework and would provide an annual record of how the Council complied with its Local Code of Corporate Governance. A copy of the new Governance Statement template was attached as Appendix 2 to the report.

The Forum decided: that the outcome of the review of the Council's Code of Corporate Governance and Annual Governance Statement be noted.

[Reference: Minutes of the Executive Committee of 16 May 2018 (Paragraph 7)]

5 Annual Governance Statement for 2017/2018 and Good Governance Action Plan Quarter 4 Progress Report

A report dated 15 May 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the Governance Statement for 2017/2018 and the Good Governance Action Plan Quarter 4 end of year report.

Each year, the Council undertook a review of the governance arrangements required to support its financial and operational controls. This review provided the basis for the Annual Governance Statement which was included in the Council's Annual Report and Statement of Accounts for 2017/2018.

The annual review for 2017/2018 had been undertaken using an assessment framework which was attached as Appendix 1 to the report. The resulting Annual Governance Statement for 2017/2018, attached as Appendix 2 to the report, provided information on the Council's compliance during 2017/2018. The opinion of Internal Audit was that a reasonable level of assurance could be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2018.

Details of progress on improvement actions in 2017/2018, together with improvement actions identified for the 2018/2019 financial year, were provided in the Quarter 4 Good Governance Action Plan end of year update, included as Appendix 3 to the report.

The Governance Statement for 2017/2018 would be submitted, for approval, to a future meeting of the Executive Committee.

The Forum decided:

- (1) that it be noted that the Annual Governance Statement would be included in the Council's Annual Report and Statement of Accounts for 2017/2018; and
- (2) that progress on the Good Governance Action Plan at Quarter 4 2017/2018 be noted.

[Reference: Minutes of 14 June 2017 (Paragraph 4)]

6 Internal Audit Activity as at 18 May 2018

A report dated 24 May 2018 by the Executive Director (Finance and Corporate Resources) was submitted on work completed by Internal Audit during the period 3 March to 18 May 2018.

Details were given on the progress of audit assignments and the performance of Internal Audit which highlighted that:-

- ◆ 82% of assignments had been delivered within budget against a target of 80%
- ◆ 87% of draft reports had been delivered on time against a target of 80%
- ◆ 24% of the 2018/2019 Internal Audit Plan had been started
- ◆ 97% of Internal Audit recommendations had been delivered on time against a target of 90%
- ◆ 85% of audit assignments had been concluded to a signed action plan within 4 weeks of the issue of a draft report against a target of 80%

The findings from assignments completed in the period 3 March to 18 May 2018 were detailed in Appendix 2 to the report. A significant assignment completed in the period was detailed in Appendix 3 to the report.

Officers responded to a member's question on aspects of the Community Empowerment Act (Scotland) 2015.

The Forum decided: that the report be noted.

[Reference: Minutes of 21 March 2018 (Paragraph 3)]

7 Actuarial Review of the Council's Self Insurance Fund

A report dated 16 May 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the financial health of the Council's self insurance fund, following a full actuarial review.

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) advised that regular actuarial reviews should be undertaken on insurance funds. The last full actuarial review of the Council's insurance fund took place in 2013, with an interim review completed in 2015.

The review of the self insurance fund had been undertaken to estimate:-

- ◆ future insurance claim settlement costs of known, and yet to be intimated, claims from past insurance policy years against the fund balance at 31 March 2017
- ◆ annual contributions rates required for the overall fund to ensure that the balance of the fund did not fall into deficit

In addition, in light of recent changes to legislation and case law, it was considered that a review of claims prior to 1 April 1996 against predecessor authorities was also required. The conclusions of the review, therefore, focused on pre and post 1996 liabilities. Details of each of those areas were given in the report.

With regard to post 1996 liabilities, the fund was in a neutral position. This meant that the balance of the insurance fund was sufficient to meet all estimated liabilities. In respect of pre 1996 liabilities, it was anticipated that the Council would receive a number of claims for historic childhood abuse, for children who had been abused whilst under the care of the Council's predecessor authorities. Due to the unknown financial impact, a contingent liability for historic abuse claims would be included within the Council's Annual Accounts for 2018/2019. Further funds might be required for those potential claims and other pre 1996 liabilities, such as asbestos related disease claims.

The position on pre 1996 liabilities and the overall balance of the insurance fund would be closely monitored and any additional funding requirements would be managed, as necessary.

The Forum decided: that the report be noted.

8 Audit Scotland - Principles for a Digital Future (Lessons Learned from Public Sector ICT Projects): Considerations for South Lanarkshire Council

A report dated 25 April 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the Audit Scotland report entitled 'Principles for a Digital Future: Lessons Learned from Public Sector ICT Projects' together with issues for consideration for the Council as a result of the report.

The Audit Scotland report, which had been published in May 2017, highlighted common themes identified from previous audits into public sector ICT projects, including NHS24, Police Scotland i6 and Common Agricultural Policy Features Programme, all of which had encountered major difficulties. The report had been reviewed by the Council's IT service to identify learning points for the Council and how those might be applied.

Details were provided on the following 5 principles for success considered in the Audit Scotland report together with key learning points for the Council:-

- ◆ comprehensive planning
- ◆ active governance
- ◆ putting users at the heart of the project
- ◆ clear leadership that set the tone and culture and provided accountability
- ◆ individual projects set in a central framework of strategic oversight and assurance

The Council's Information Technology service was aware of and had implemented the 5 principles for success contained in the Audit Scotland report.

The Forum decided: that the report be noted.

9 Audit Scotland - Financial Overview 2016/2017

A report dated 17 April 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the Audit Scotland report entitled 'Financial Overview 2016/2017' which had been published in November 2017.

The report had been structured around the following 3 headings:-

- ◆ income and budgets for 2016/2017
- ◆ financial performance 2016/2017
- ◆ financial outlook

Details were given on key points contained in the Audit Scotland report. The report also included a number of questions which Audit Scotland had intimated should be considered by elected members. The questions, which covered a variety of issues, together with the Council's position on each of the areas identified, were detailed in Appendix 1 to the Executive Director's report.

The Forum decided:

- (1) that the key points contained in the Audit Scotland report entitled 'Financial Overview 2016/2017' be noted; and
- (2) that the issues identified by Audit Scotland for consideration by elected members and the Council's position on each of those issues be noted.

[Reference: Minutes of 31 January 2017 (Paragraph 8)]

10 Interim Audit Report for Year Ended 31 March 2018

An interim audit report dated May 2018 by Audit Scotland, the Council's external auditor, was submitted detailing the findings of Audit Scotland's interim audit of the Council for 2017/2018.

The external auditor detailed key findings in relation to the following areas of audit work:-

- ◆ approval of journal entries
- ◆ confirmation of payroll standing data
- ◆ blue (disabled parking) badges
- ◆ policies and procedures

The management responses in relation to the external auditor's findings on each of those areas of work were detailed in the report.

The external auditor also advised of other audit work and discussions undertaken in relation to issues including:-

- ◆ review of internal audit accounts payable work
- ◆ housing repairs initial systems review
- ◆ cyber resilience
- ◆ performance, outcomes and improvement best value work

In relation to issues identified regarding cyber resilience, the external auditor noted that the Council had now received Public Services Network (PSN) accreditation.

The external auditor and officers responded to a member's question on disabled parking badges.

The Forum decided: that the external auditor's interim audit report for 2017/2018 be noted.

11 Local Scrutiny Plan 2018/2019

A document dated April 2018 by Audit Scotland was submitted on the South Lanarkshire Council Local Scrutiny Plan 2018/2019.

The Local Scrutiny Plan set out any scrutiny risks identified by the Local Area Network (LAN), proposed scrutiny responses and expected scrutiny activity for South Lanarkshire Council for the financial year 2018/2019. The scrutiny risks and responses were based on a shared risk assessment undertaken by the LAN, comprising representatives of all scrutiny bodies which engaged with the Council. The LAN's risk assessment of the Council had not identified any areas where specific scrutiny was required other than that which was nationally directed or part of a planned programme of work.

Key findings were detailed in the report.

In terms of scrutiny activity, the current Best Value Assurance Report programme included publication of a report for South Lanarkshire Council in 2019.

The Committee decided: that the Local Scrutiny Plan 2018/2019 for South Lanarkshire Council be noted.

[Reference: Minutes of 1 November 2017 (Paragraph 6)]

12 Financial Resources Scrutiny Forum Activity

A report dated 30 April 2018 by the Executive Director (Finance and Corporate Resources) was submitted on reports considered by the Financial Resources Scrutiny Forum in the period from October 2017 to May 2018.

A report on the business considered by the Financial Resources Scrutiny Forum would be submitted to the Risk and Audit Scrutiny Forum on an annual basis.

The Forum decided: that the report be noted.

13 Forward Programme for Future Meetings

A report dated 24 May 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the outline forward programme for the meetings of the Risk and Audit Scrutiny Forum to 14 November 2018.

As part of future arrangements, members were invited to suggest topics for inclusion in the Forum's forward programme.

The Forum decided: that the outline forward programme for the meetings of the Risk and Audit Scrutiny Forum to 14 November 2018 be noted.

14 Urgent Business

There were no items of urgent business.

Address:

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Risk and Audit Scrutiny Committee

18 September 2018

Audit of South Lanarkshire Council and the registered charities administered by the council 2017/18**Independent auditor's report**

1. Our work on the annual accounts of South Lanarkshire Council and the registered charities administered by the council, (appendix C), is now complete. Subject to the receipt of revised annual accounts for final review, we anticipate being able to issue an unqualified and unmodified independent auditor's report on 18 September 2018 (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 2017/18 audit. International Standard on Auditing (UK) 260 (Communication with those charged with governance) requires external 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. Within the proposed annual audit report the section headed "Significant findings" (pages 10-12) sets out the issues we consider should be drawn to your attention in accordance with ISA 260.
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. In presenting this report to the Risk and Audit Scrutiny Committee we also seek confirmation that we have been informed of:
 - instances of any actual, suspected or alleged fraud;
 - events that have occurred since 31 March 2018 which could have a significant impact on the annual accounts;
 - instances of non-compliance with legislation.

Unadjusted misstatements

5. We are required to report to those charged with governance, all unadjusted misstatements, other than those of a trivial nature and request that they be corrected. We confirm that all such monetary errors identified from our audit have been corrected in the financial statements by management.

Outstanding matters

6. We are still awaiting component assurances from the auditors of Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Joint Board.

Representations from management

7. International Standard on Auditing (UK and Ireland) 580 (Management representations) requires auditors to obtain evidence on certain matters from management. Accordingly, as part of the completion of our audit we seek written assurances from the Executive Director of Finance and Corporate Resources on aspects of the financial statements and judgements and estimates made.
8. Draft letters of representation in respect of the Council and the trusts registered as 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

9. 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. This enabled us to bring the audit to completion within the required timescale.

APPENDIX A: Proposed independent auditor's report

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

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 approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the 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 Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Accounts Statement, the Non-domestic Rate Income Accounts 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 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 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 2017/18 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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.

Responsibilities of the Executive Director of Finance and Corporate Resources and South Lanarkshire Council 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 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 of South Lanarkshire Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve 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 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 other prescribed matters

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.

Fiona Mitchell-Knight FCA
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GLASGOW
G2 1BT

18 September 2018

Appendix B: ISA 580 - Letter of Representation - South Lanarkshire Council

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

18 September 2018

Dear Fiona

South Lanarkshire Council - Annual accounts 2017/18

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 2018 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 2018 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 2018.

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 Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Disclosure has been made in the financial statements 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 2018.

Accounting policies and estimates

All material accounting policies adopted are as shown at note 34 to the accounts. 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 of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

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, and all required information of which I am aware has been provided to you.

Related party transactions

All related party transactions have been identified and disclosed at note 15 to the accounts in accordance with the Code. 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 of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Assets

General

The assets shown in the books and accounts at 31 March 2018, 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 2018, 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 2018, and no properties were omitted from or duplicated in the valuation
- 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 20 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 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 2018 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 29 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in 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 accounts for all material liabilities, including claims arising from equal pay legislation, which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which South Lanarkshire Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.

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 council as a whole.

Loans fund

All borrowings are compliant with the provisions of the Local Government (Scotland) Act 1975. The council did not, during 2017/18, 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 of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 defaults on loans.

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

I confirm that 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 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 2018. In my opinion the group assets, liabilities and revenue transactions within 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. Any significant issues with the financial statements of 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 and that the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. There have been no changes in the corporate governance arrangements or issues identified, since the balance sheet date, which require disclosure.

Fraud

I acknowledge that it is the responsibility of the 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 the auditor the results of this review, including 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.

General

I acknowledge my responsibility, and that of the council, for the financial statements. 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 South Lanarkshire Council and its group have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all council and other meetings.

Disclosure has been made in the financial statements of all matters necessary to give a true and fair view of the financial position of South Lanarkshire Council and its group as at 31 March 2018 and the income and expenditure for the year then ended.

The information given in the narrative reports supporting the financial statements, including the management commentary and remuneration report, presents a balanced picture of South Lanarkshire Council and is consistent with the financial statements.

Events subsequent to the date of the balance sheet

There have been no material events since the date of the balance sheet which would require the revision of the figures in the financial statements or notes thereto, including of contingent assets and liabilities.

Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the accounts, 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 the relevant charity> and the Accounts Commission

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 approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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 the relevant charity> for the year ended 31 March 2018 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 2018 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)). 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 achieve 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.

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

18 September 2018

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

Appendix E: ISA 580 - 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

18 September 2018

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 2017/2018

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 2018 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 2018 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 2018.

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.

I confirm that the accounts of the three charities submitted for audit are the only trusts which fall to be audited under the provisions of the Local Government (Scotland) Act 1973

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 2018.

Accounting policies

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

Related party transactions

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

Events subsequent to the balance sheet date

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

Since the date of the statement of balances 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.

Corporate 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.

Assets

The cash fund and investments shown in the statement of balances at 31 March 2018 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.

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 Lanarkshire³ Council

2017/18 Proposed Annual Audit Report

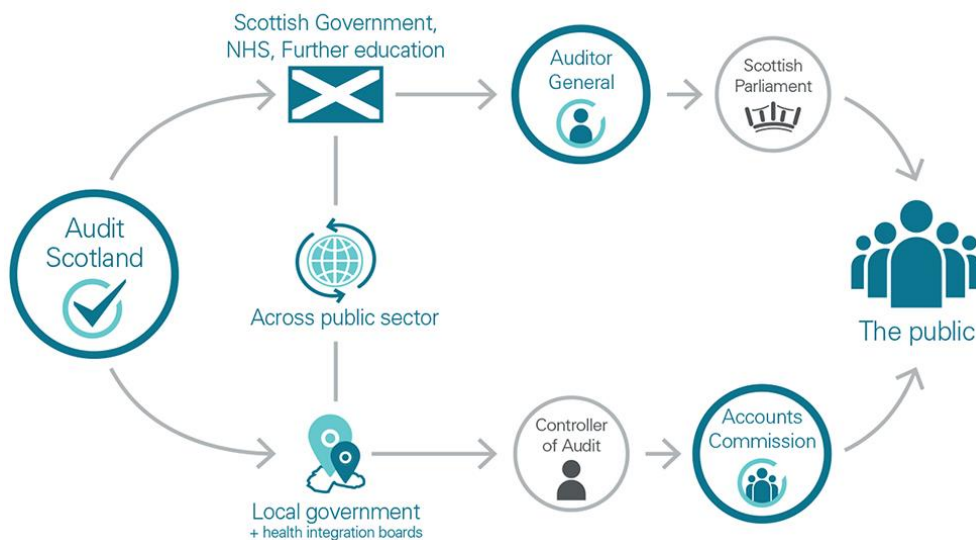


Prepared for the Members of South Lanarkshire Council and the Controller of Audit
18 September 2018

Who we are

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

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



About us

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

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

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Key messages

2017/18 Annual Accounts

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

Financial management

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

Financial sustainability

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

Governance and transparency

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

Best Value

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

Introduction

Background

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

2. This report will be published on Audit Scotland's website: www.audit-scotland.gov.uk

Scope of our audit

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

4. This report sets out our findings from:

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

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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

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

Responsibilities

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

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

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

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

Adding value through the audit

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

Recommendations

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

Ethical considerations

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

Acknowledgement

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

Part 1

Audit of 2017/18 Annual Accounts



Main judgements

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

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

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

Audit opinions on the Annual Accounts

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

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

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

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

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

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

Submission of the Council's Annual Accounts for audit

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

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

Disclosure checks

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

Good practice in financial reporting

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

Management commentary, annual governance statement and remuneration report

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

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

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

Risk of material misstatement

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

Materiality

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

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

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

Exhibit 2

Materiality levels

Materiality level	Amount
Overall materiality – This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018.	£10.716 million
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.	£5.358 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to members would be £100,000.	£100,000

Evaluation of misstatements

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

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

Significant findings


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


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

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

Exhibit 3

Significant findings from the audit of the financial statements

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

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

Follow up of prior year recommendations

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

Pension liability

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

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

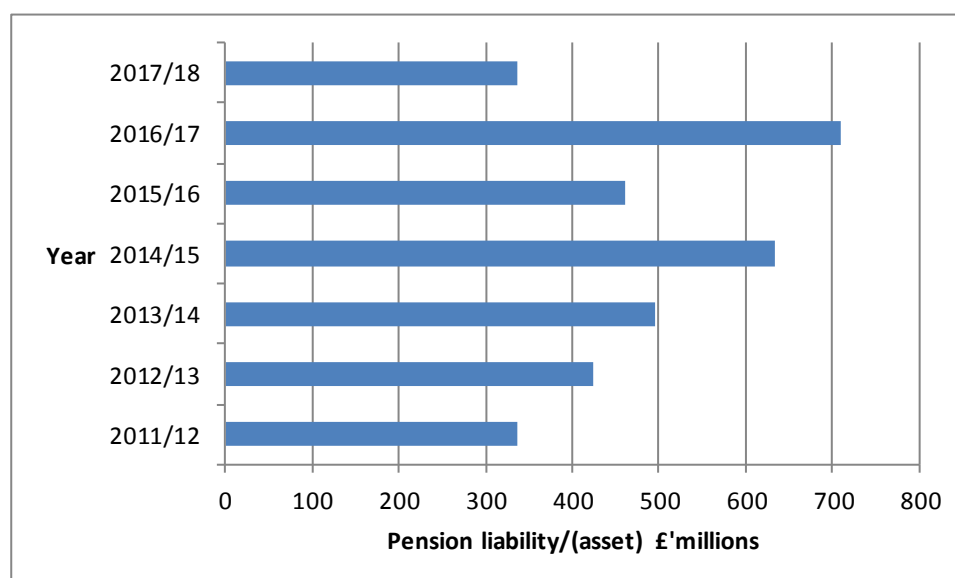
35. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this cost. [Exhibit 4](#) sets out the historic movement of the Council's pension liability. Historically there has been considerable volatility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

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

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

Exhibit 4

Pension fund liability 2011/12–2017/18



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

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

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

Audit of charities administered by South Lanarkshire Council

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

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

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

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

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

Exhibit 5

Charities administered by South Lanarkshire Council

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

Source: Charities audited accounts 2017/18

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

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

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

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

Going concern

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

Other findings

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

Whole of Government Accounts

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

Part 2

Financial management



Main judgements

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

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

Financial management

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

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

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

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

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

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

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

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

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



Recommendation 3 (refer appendix 1, action plan)

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

Financial performance in 2017/18

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

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

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

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

Exhibit 6

Summary of significant variances

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

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

Education underspend

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

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

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

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

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



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

Corporate items underspend

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

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

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



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

Loan charges / council tax underspends

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

Exhibit 7

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

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

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

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

Housing revenue account (HRA)

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

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

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

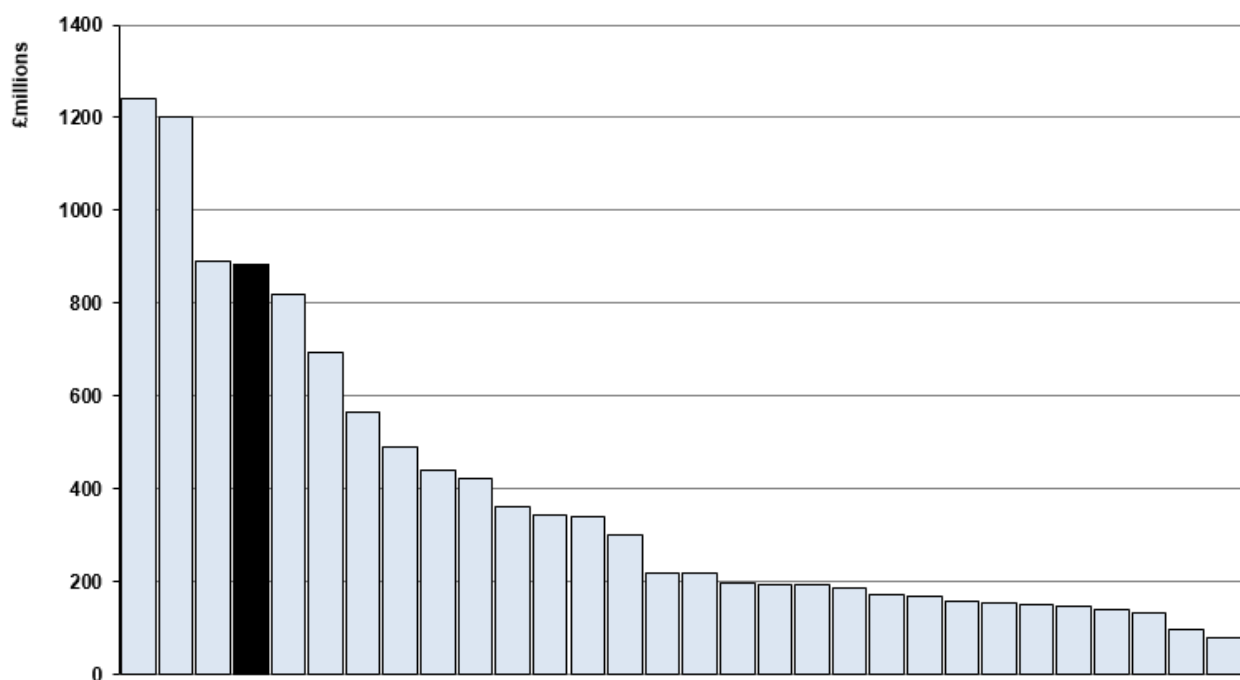
71. After the allocation of the surplus on Property Services, the HRA reported a surplus for the year of £1.373 million. When added to the amount brought forward from the prior year this gives an accumulated surplus of £11.624 million.

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

Borrowing in 2017/18

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

Exhibit 8 Scottish council long term borrowing



Source: Scottish local authority 2017/18 unaudited annual accounts

Capital programme

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

General services capital programme

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

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

Exhibit 9

Highest value projects in 2017/18 general fund capital programme

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

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

Housing capital programme

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

Part 3

Financial sustainability



Main judgements

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

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

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

Financial planning for 2018/19

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

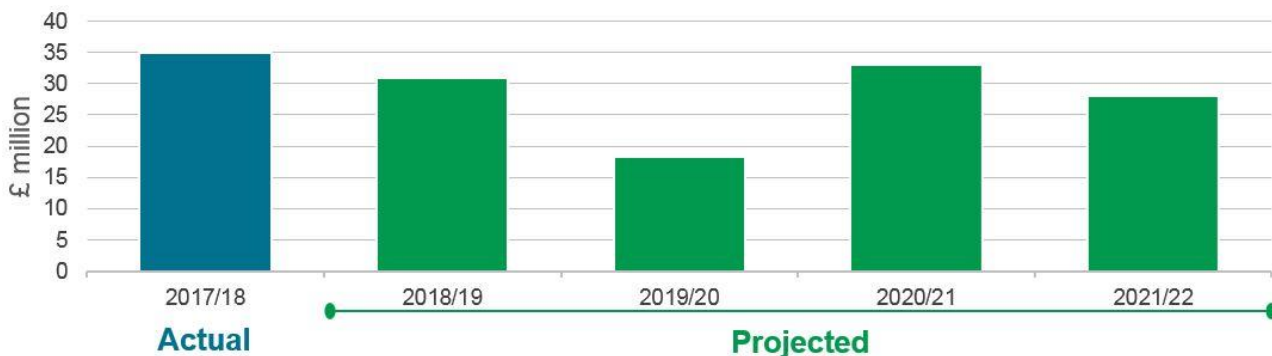
79. The new council plan, Connect 2017 to 2022, was approved in December 2017. In February 2018 the first revenue budget relating to this plan was approved. The 2018/19 revenue budget reflects the Scottish Government one-year financial settlement of £549.116 million, an increase in general revenue funding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

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

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

Exhibit 10

Identified funding gaps 2017/18 – 2021/22



Source: South Lanarkshire Council 2017/18 approved budget (February 2017), South Lanarkshire Council 2018/19 approved budget (February 2018) and Financial Strategy 2019/2020 to 20221/2022 (August 2018)

Reserves

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

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

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

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

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

Exhibit 11

Usable reserves

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

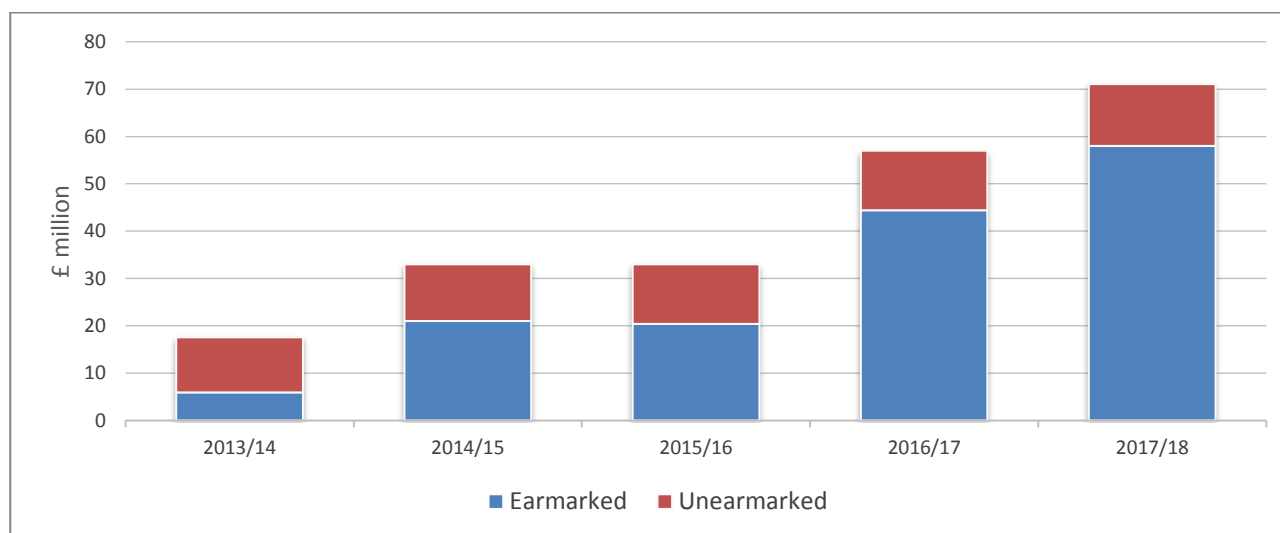
Source: South Lanarkshire Council 2017/18 Annual Accounts

Earmarked reserves

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

Exhibit 12

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



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

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

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

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

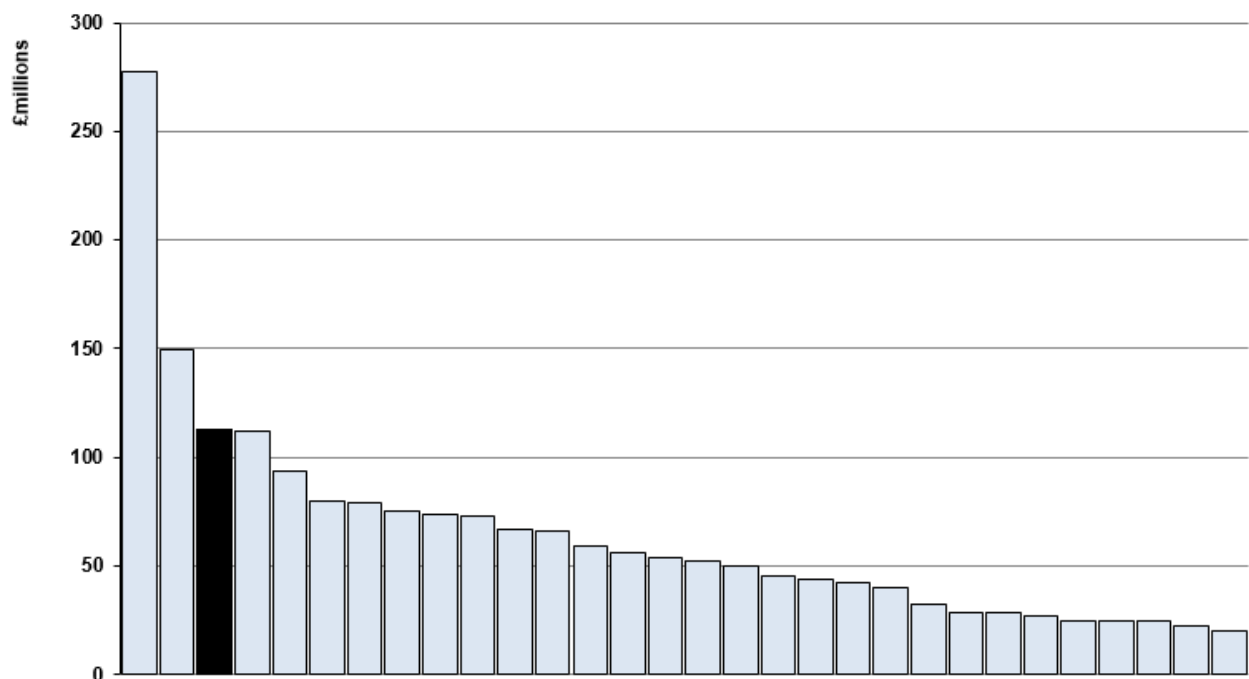
89. The Executive Director of Finance and Corporate Resources should oversee a challenge review of earmarked service balances and confirm or recommend reassignment of balances as uncommitted funds as appropriate.



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

Exhibit 13

Scottish councils' usable reserves at 31 March 2018



Source: Scottish councils' unaudited Annual Accounts 2017/18

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

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

Long-term financial strategy

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

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

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

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

Good Practice

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

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

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

European Union withdrawal

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

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

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

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

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

Glasgow City Region City Deal

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

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

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

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

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

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

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

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

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

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

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

Part 4

Governance and transparency



Main Judgements

The Council has effective governance arrangements in place.

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

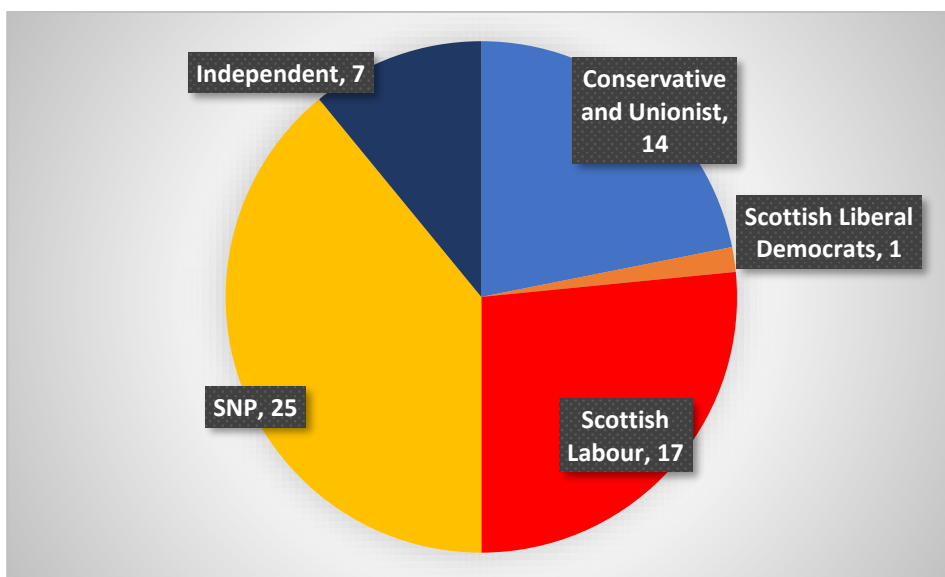
The Council conducts its business in an open and transparent manner but there is scope to identify opportunities to increase citizen participation.

Governance arrangements

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

Exhibit 14

South Lanarkshire Council political makeup



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

Source: South Lanarkshire Council website

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

Good Practice

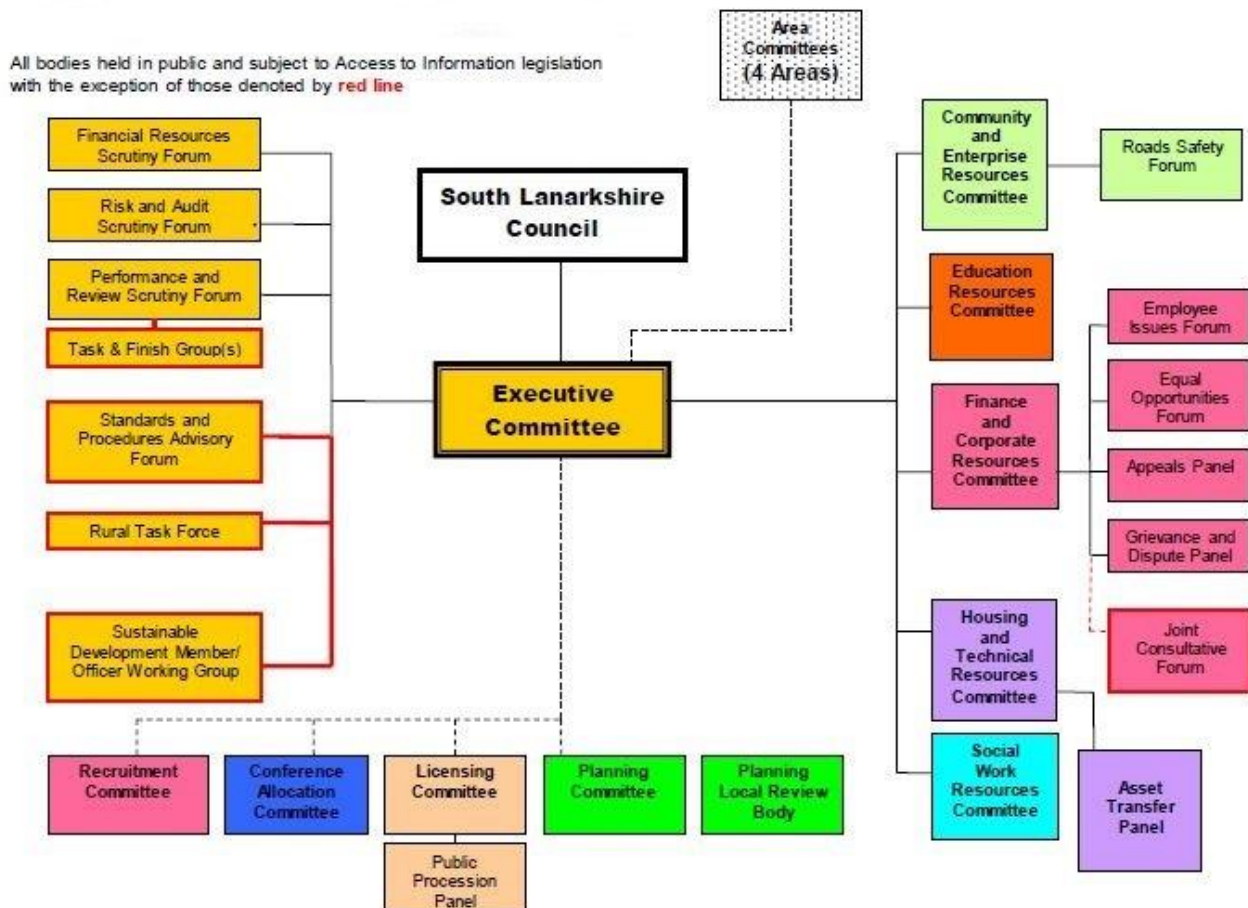
In June 2018 meeting the Council approved the establishment of a Petitions Committee with the stated intention of improving the ability of local communities / residents to engage with the Council.

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

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

Exhibit 15

South Lanarkshire Council decision-making structure



Source: Establishment of Council's Decision-making Arrangements and Procedures report to South Lanarkshire Council (May 2018)

Scrutiny arrangements

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

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

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

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

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

Risk and Audit Scrutiny Forum (RASf)

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

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

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

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

Internal audit

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

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

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

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

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

Review of internal audit accounts payable work

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

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

Annual Assurance Report

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

Good Practice

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

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

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

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

Systems of internal control

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

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

Good Practice

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

Transparency

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

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

Exhibit 16

Transparency model



Source: Audit Scotland

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

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

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

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

Following the public pound

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

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

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

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

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

National Fraud Initiative in Scotland

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

Exhibit 17

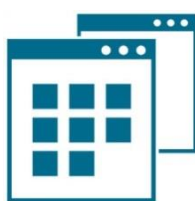
National Fraud Initiative

Total number of matches



12,147

Number selected for investigation



3,886

Completed/closed investigations



3,487

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

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

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

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

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

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

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

Standards of conduct for prevention and detection of fraud and error

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

Correspondence referred to the auditor

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

Cyber security

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

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

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

Public Services Network (PSN)

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

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

General Data Protection Regulation

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

Good Practice

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

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

Health and Social Care Integration

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

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

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

Health and Social Care Integration performance audit

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

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

Local scrutiny plan

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

Part 5

Best Value



Main judgements

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

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

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

Best Value

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

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

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

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

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

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

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

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

Connect 2017 to 2022

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

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

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

Public consultation on new Council plan

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

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

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

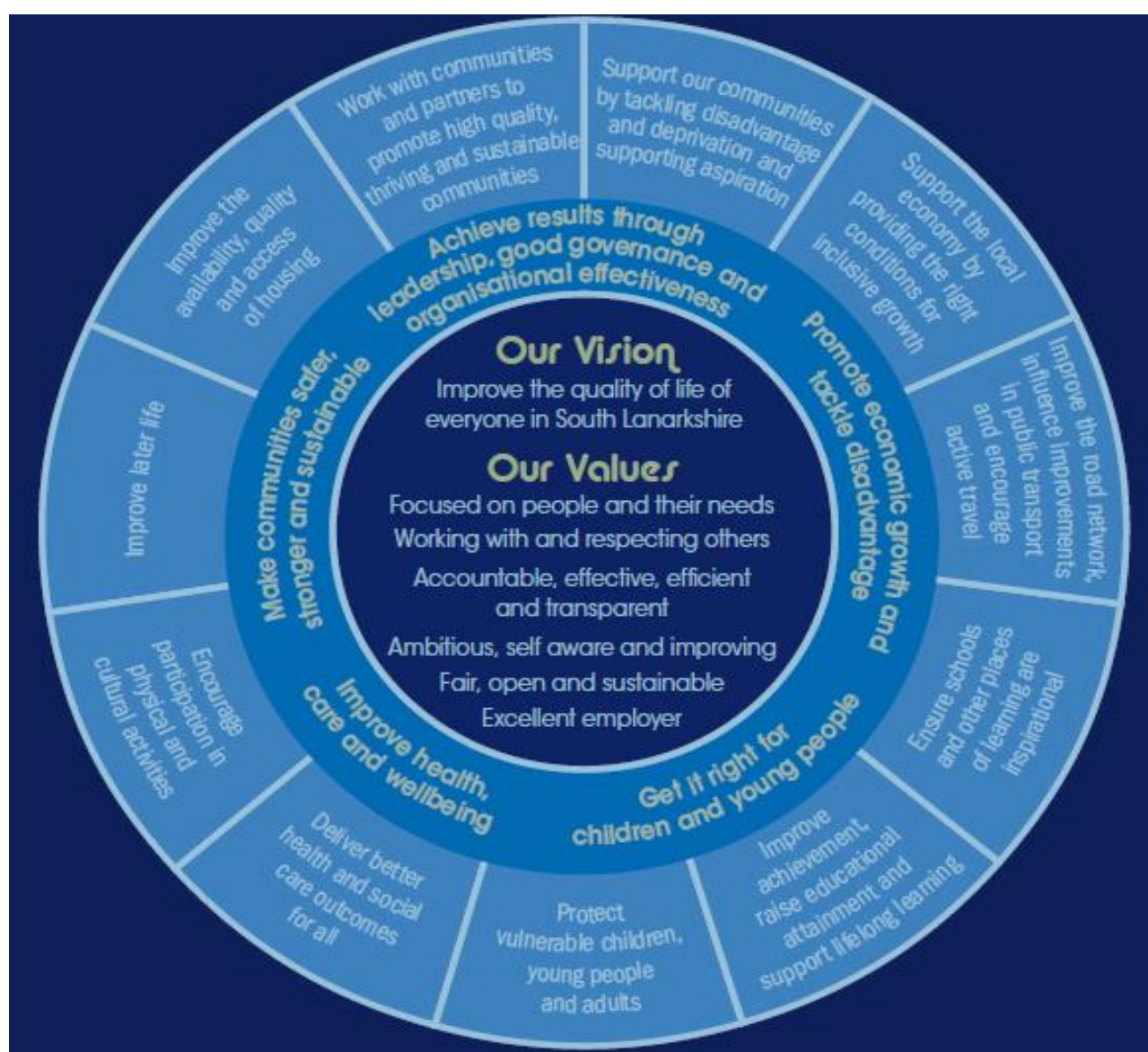
- Education Resources conducts a Youth Survey, most recently between August and November 2017.

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

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

Exhibit 18

Connect 2017 to 2022



Source: South Lanarkshire Council

Alignment of resource directorate plans with Connect

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

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

Exhibit 19

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

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

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

Source: 2017/18 Resource Plans

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

Internal performance reporting against Connect

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

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

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

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

Exhibit 20

IMPROVe traffic light grading system

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

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

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

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

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

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

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

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

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

Exhibit 21

Connect performance reported at end of Quarter 4 2017/18

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

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

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



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

Statutory performance indicators (SPIs)

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

178. For 2017/18 two SPIs were prescribed:

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

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

Annual Performance Report

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

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

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

Local Government Benchmarking Framework

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

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

Relative performance against other Scottish councils

185. [Exhibit 22](#) shows the Council's relative performance compared to all other Scottish councils. Although there are over 70 performance indicators in the LGBF, this analysis is based on 35 single-year indicators measuring performance rather than cost¹. Some ambiguity may exist in the judgement of whether an increased

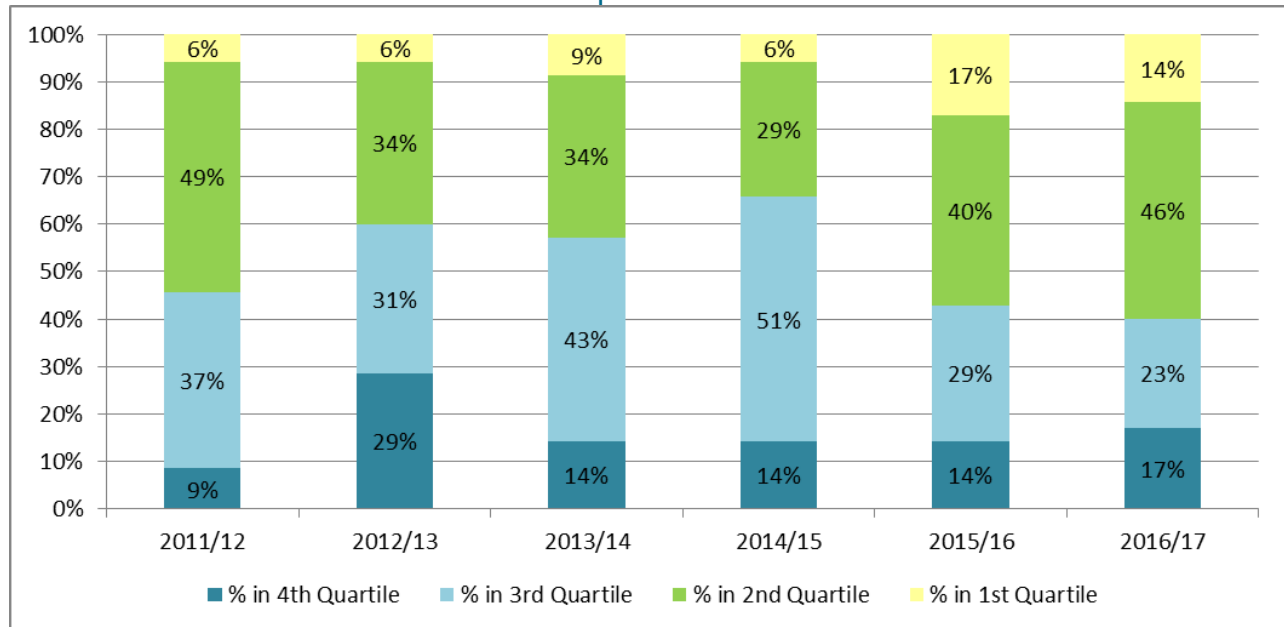
¹ The full range of indicators are available on the Improvement Service website: www.improvementservice.org.uk/benchmarking/

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

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

Exhibit 22

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



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

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

Performance against a selection of indicators

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

Exhibit 23

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

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

Source: Local Government Benchmarking Framework, Improvement Service 2018

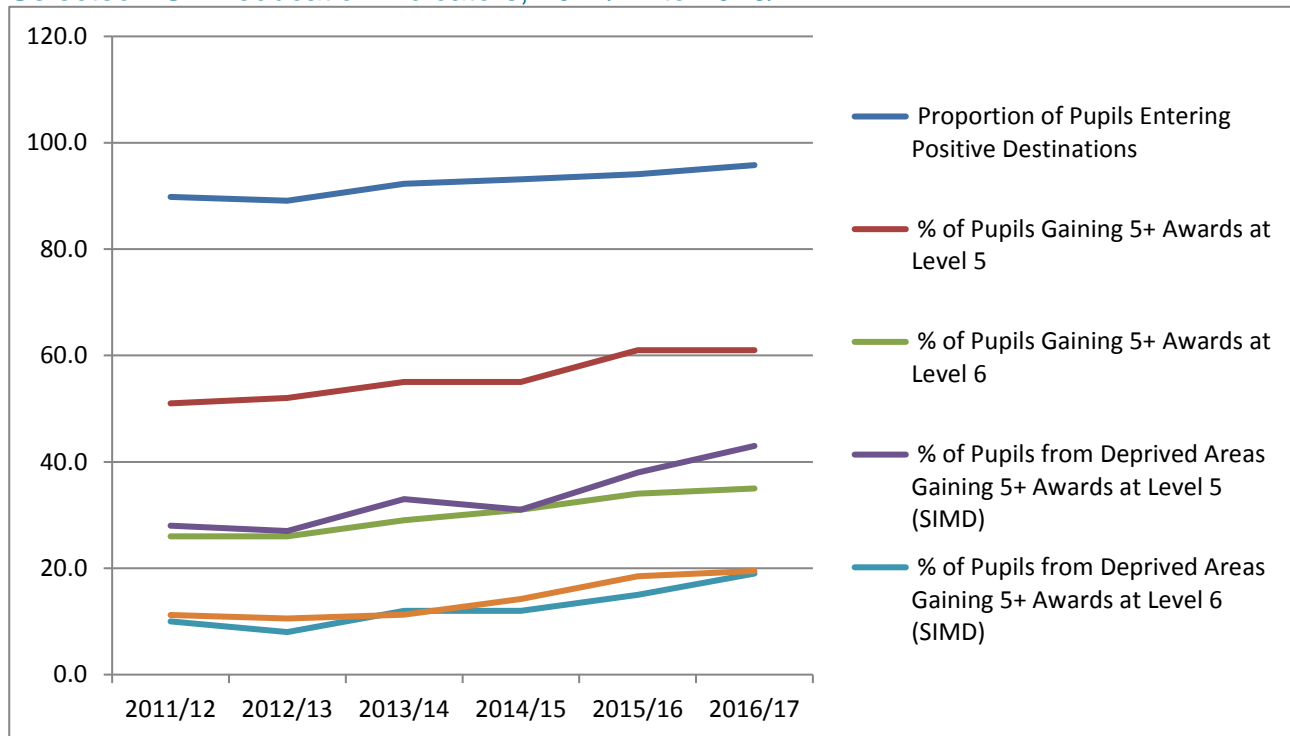
Areas of good or improving performance

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

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

Exhibit 24

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



Source: Local Government Benchmarking Framework, Improvement Service 2018

Areas of poor or deteriorating performance

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

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

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

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

Exhibit 25

South Lanarkshire Council's performance against service satisfaction LGBF indicators

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

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

Source: Local Government Benchmarking Framework, Improvement Service 2018

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

Council response to LGBF data

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

National performance audit reports

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

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

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

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

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



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

Appendix 2

Significant audit risks identified during planning

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

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

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

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












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

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

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

Appendix 3

Summary of national performance reports 2017/18

 2017/18 Reports		
Apr		
May		
Common Agricultural Policy Futures programme: further update		Jun
		 Scotland's colleges 2017
		Jul
		 NHS workforce planning
Self-directed support: 2017 progress report		Aug
Equal pay in Scottish councils		Sept
Transport Scotland's ferry services		Oct
		 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov
Dec		
Jan		
Early learning and childcare		Feb
Managing the implementation of the Scotland Acts		Mar

Local government relevant reports

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

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

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

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

South Lanarkshire Council

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Report

4

Report to: **Risk and Audit Scrutiny Committee**
 Date of Meeting: **18 September 2018**
 Report by: **Executive Director (Finance and Corporate Resources)**

Subject: **Audited Annual Accounts 2017/2018**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ advise members of the requirement to approve the Annual Accounts 2017/2018 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 it be noted that the South Lanarkshire Council Accounts 2017/2018 and the Charitable Accounts have received a clean audit certificate ;
- (2) that the audited South Lanarkshire Council Accounts 2017/2018 and the Charitable Trusts' Accounts be approved for signature;
- (3) that it be noted that the External Auditor's Report will be referred to South Lanarkshire Council for information; and
- (3) that it be noted that the Audited Accounts 2017/2018 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 2018. The members are also required to have regard to any report made or advice provided on the Annual Accounts by the External Auditor.
- 3.2. 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 (26 September 2018) for information.
- 3.3. Copies of the (unsigned) Audited Accounts 2017/2018, 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.
- 3.4. Once signed, the Audited Accounts will be available to the general public on the Council's website and also in Finance Services, Floor 4, 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 2017/2018 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 2017/2018 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 2018/2019.

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 2017/2018 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 2017/2018 are detailed in the External Auditor's report. These did not impact on the Council's in-year outturn position for 2017/2018, as reported to Executive Committee in June 2018.

8. Other Implications

- 8.1. 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.
- 8.2. There are no implications for sustainability in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. 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.
- 9.2. 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)

7 September 2018

Link(s) to Council Values/Ambitions/Objectives

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ None

List of Background Papers

- ◆ South Lanarkshire Council Annual Accounts 2017/2018 and External Auditor's Report.
- ◆ Charitable Trusts' Annual Accounts 2017/2018 and External Auditor's Report.
- ◆ Financial Ledger 2017/2018 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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Report

5

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	18 September 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 29 August 2018
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ update the Risk and Audit Scrutiny Committee (RASC) on progress by, and performance of, the Internal Audit Service in the period to 29 August 2018

2. Recommendation(s)

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

- (1) that progress and performance is noted

3. Background

3.1. Findings from internal audit assignments are reported to the Committee throughout the year. The last progress report to the Committee, formerly the Risk and Audit Scrutiny Forum, was in June 2018. This reported on work completed in the period 3 March to 18 May 2018. This report covers all work completed in the period 19 May to 29 August 2018. Performance information is also included.

4. Performance

- 4.1. As at 29 August 2018, approximately 69% of the 2018/2019 Audit Plan has been started. The other key performance indicators reflecting quality, on time and within budget for the period to 31 July 2018 are summarised in Appendix One together with explanations. 80% of draft reports have been issued on time and 67% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.
- 4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly, once agreed. 86% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.
- 4.3. Committee members are asked to note performance.

5. Findings

- 5.1. Appendix Two lists all assignments completed in the period 19 May to 29 August 2018 and the key messages, in respect of the following significant assignments completed in this period, have been appended to this report:
- ◆ LED Lighting – progress with targets (Appendix Three)
 - ◆ Pupil Equity Fund (Appendix Four)
 - ◆ User Interface IT Audit 2017/18 (Appendix Five)
- 5.2. Aside from delivering a programme of audit assignments, Internal Audit also facilitated a self-assessment by the Information Governance Board of progress with actions to ensure compliance with the General Data Protection Regulations (GDPR), which were effective from 25 May 2018. The findings were discussed with the Information Governance Board on 21 August 2018 and follow-up work will be undertaken by the end of September 2018 to assess progress with completion of the remaining actions.
- 5.3. Committee members are asked to note findings.

6. Progress against Strategy

- 6.1. The Public Sector Internal Audit Standards (PSIAS) requires progress against the audit strategy to be monitored and reported to the Committee as part of regular monitoring reports that are presented at each meeting.
- 6.2. Delivery of the strategy will be evidenced by completion of the 2018/2019 Plan and this will be monitored through the performance indicators regularly reported to the Committee. Any subsequent changes to the Plan will be presented to the Committee, which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

7. Employee Implications

- 7.1. There are no employee issues.

8. Financial Implications

- 8.1. At present, a breakeven position is forecast to the end of the financial year for the Internal Audit section.

9. Other Implications

- 9.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.
- 9.2. There are no implications for sustainability in terms of the information contained in this report.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. There is no requirement to equality assess the contents of this report.
- 10.2. Heads of Service are consulted on each and every audit assignment.

Paul Manning
Executive Director (Finance and Corporate Resources)
29 August 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Internal Audit Plan 2018/2019 – Risk and Audit Scrutiny Forum 21 March 2018

List of Background Papers

- ◆ Figtree extracts of Action Plans

Contact for Further Information

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

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Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	14/21	67%	80%	Most assignments delivered outwith budget were marginally over budget. One assignment related to advice and guidance and participation in an internal working group where more days were required than was originally anticipated.
Draft reports delivered within 6 weeks of file review	8/10	80%	80%	
2018/2019 Audit Plan completed to draft by 31 March 2019	6/54	11%	100%	Approximately 69% of 2018/2019 Audit Plan has been started and plans are in place to deliver this programme of work by 31 March 2019.
Internal Audit recommendations delivered on time	39/40	98%	90%	
Client to agree findings and actions within 4 weeks of draft issue	6/7	86%	80%	

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
Prior Year Assignments				
I341053	Progress with Targets LED Lighting	03/04/2018	21/05/2018	See Appendix Three
I410050	Follow Up of Anti-Fraud Checks (Schools)	13/03/2018	25/06/2018	Poor progress made with completion of agreed actions, with five actions, from nine, still outstanding. Revised implementation dates have been agreed with Education Resources and will be followed up by Internal Audit.
I613096	School Funds	30/03/2018	25/06/2018	Adequate assurance that controls were in place at the sample schools to deter and detect fraud. The introduction of ParentPay should mitigate some cash risks.
I674109	Fuel Theft	01/06/2018	01/06/2018	The allegation could not be substantiated, no action taken against individual. Further work required to establish all control gaps and identify effective improvement actions where required.
I342059	Medication - Social Work	30/03/2018	13/06/2018	Procedures followed in relation to administration and monitoring of medication at the sample care homes. Additional good practice could be rolled out to other care homes.
I220066	Pupil Equity Fund Audit	29/03/2018	25/06/2018	See Appendix Four
I541018	IT Audit (User Interface)	20/03/2018	03/07/2018	See Appendix Five
I620076	Chargeback	04/07/2018	04/07/2018	Council's online pages for Council Tax (CT) and Non Domestic Rates (NDR) were updated to advise SLC

				customers that the Council does not offer discounted terms to third party companies for payment of NDR or CT bills. Further work will be carried out to review the adjustment resulting from differences in “fast payments” to ensure discrepancies are followed up where required.
I342052	Self-Directed Support	29/03/2018	17/07/2018	Adequate assurance obtained for Adult and Older People Service of compliance with SDS Regulations. Implementation process is not as advanced in Children and Family Service, with standard systems forms to be finalised. Overall, adequate assurance obtained that progress is being made and, provided this is maintained, the deadline for implementation by 2020 will be met.
I350064	General Data Protection Regulations	14/03/2018	17/07/2018	See 5.2.
I613098	School Catering Monies Spot Checks	15/03/2018	17/07/2018	Series of routine school meal cash spot-checks. Testing generally concluded that basic controls needed to safeguard school meal income were in place.
I674115	Pupil Equity Fund	29/03/2018	17/07/2018	Collective PEF expenditure across two schools marginally breached Council’s procurement regulations. Further controls are now in place within iProc to prevent reoccurrence.

2018/2019				
Internal Audit - Assurance Reviews				
I676144	Contractor Invoices	19/07/2018	19/07/2018	Technical error that was altering scanned copies of invoices. Now resolved.

2018/2019				
Internal Audit – Other Output				
I674147	School Meals Income Theft	03/07/2018	03/07/2018	Allegation of theft unsubstantiated.
I672150	School Closing Times	24/07/2018	24/07/2018	Allegation substantiated of employees claiming for time not worked. Employees dismissed.

2018/2019				
External Clients				
I928079	LVJB Annual Report	01/06/2018	04/06/2018	Reported to LVJB.
I912069	SLLC Trading Analysis	30/04/2018	12/06/2018	Reported to SLLC.
I948085	IJB Annual Report	26/06/2018	26/06/2018	Reported to the IJB.
I944084	IJB Follow-Up of Actions	26/06/2018	26/06/2018	Reported to the IJB.
I942083	IJB Financial Planning	29/05/2018	26/06/2018	Reported to the IJB.
I941086	IJB Audit Management	26/06/2018	26/06/2018	Reported to the IJB.
I916067	SLLC Vending Machine Discrepancies	18/04/2018	29/06/2018	Reported to SLLC.

Objective

To summarise the progress with the project targets and deliverables for the LED Street Lighting Programme, agreed at the Executive Committee in March 2015.

Key Summary

The progress made with the Street Lighting Improvement Programme is meeting expectations and is appropriately reported through both the Council and Resource Plans.

Identification of Key Findings

- The original timescales and deliverable were set out in Executive Committee Report of March 2015 – all LEDs renewed in 3 years and 7000 of the oldest columns within 5 years.
- Bi-annual IMPROVe updates made to Council and Resource Plans
- Good progress made on both areas of the project in Years 1 and 2.
- Accelerated programme progress is a result of unit cost reductions for LEDs and street lighting columns.
- The supporting project data correlates with the Q2 and Q4 IMPROVe reports.
- Energy consumption has decreased by 44%; in line with expectations set out in the original plan.
- Reduced energy costs have provided savings of £0.91m pa at the end of year 2.
- Carbon emissions savings of 1,613 tCO₂e has been achieved

Good Practice

- Project change management arrangement in place; that are developing the progress made in Years 1 and 2 of the programme.

Objective

To assess the controls in place that will ensure Pupil Equity Funding is being effectively invested to facilitate an improvement in educational outcomes for children affected by poverty.

Key Summary

PEF is at the early stages of development and implementation. Adequate assurance was obtained over the controls in place to ensure the governance arrangements being developed for PEF which should contribute towards the objective of closing the poverty related attainment gap.

Identification of Key Findings

- Education Resources have identified governance gaps in the PEF risk card (June 2017)
- Local PEF guidance issued to supplement the National Operational Guidance.
- The key principles of PEF are being developed in South Lanarkshire.
- The transparency of PEF arrangements are variable at present
- PEF plans were in place for most of the seven sample schools reviewed.
- PEF financial plans returned by 82% of all school establishments
- Purchase cards to be used for PEF expenditure are managed by a 'Procedure for Use' developed by Procurement Services.

Good Practice

- The PEF section incorporated into the Establishment Improvement Plan.
- Where evidenced PEF Consultation with parents and stakeholders.

Objective

The objective of this audit was to obtain assurances that the mobile security policy is comprehensive and considers the processes for authorising users to work both from home and access the corporate network remotely. The audit examined three areas of cyber security where the user interfacing with the IT environment could cause security related issues. Firstly, user education of the risks and policies that document users' responsibilities with regard to cyber security. Secondly, the controls and granting of privileges to allow a user to connect to the IT network and the implemented password policy. Finally, the technical controls and policies to govern users that access the IT network remotely were examined.

Key Summary

Overall, there was adequate assurance that the controls in place to enable users to remotely access the Corporate IT network are effective and robust. The proliferation and use of removable media is a risk to the Council in terms of data security, and this risk is increased if used outside of the office environment and the presence of physical controls. It is recommended that IT Services fully enable the controls at their disposal to mitigate this risk, and, in the interim, provide reports to the business units to allow local awareness of this risk. There is a range of courses available via the Council's online training portal that covers the area of information governance and security. It is noted that courses have been implemented and are in development that will address the gaps in the provision of training in the specific area of cyber security and include coverage of the emerging risks in the area.

All Council issued mobile devices are encrypted and are certificated to allow an authenticated remote connection to the corporate network. Reliance is placed on users to maintain effective password and information security when out of the office. Remote connection to the corporate network utilises a secure connectivity protocol. There is additional assurance in the implemented password policies conform to industry best practice. Actions have been recommended that, if implemented, will address the risks identified and augment the already robust controls and processes in place.

Identification of Key Findings

- There is a suite of policy documents in place that cover the key aspects of cyber security. Mobile /remote working is not specifically addressed in detail in the documents, however, the contents apply to all IT systems regardless of how they are accessed.
- Every user of the network agrees to be bound by these policies during login to the IT network.
- Reliance is placed on users to maintain effective password and information security when out of the office.
- Encryption and certification of Council issued mobile devices, as a default, mitigates the risk of unauthorised connections and malware intrusion.

Areas for Improvement

- Awareness of policies, their content and consequence of breaching to be raised.
- Control of the use of removable media and USB connectivity to be implemented.
- Training resources to be reviewed, revised and updated, where appropriate.
- Consider how to raise awareness of Cyber Security risk to employees who do not have Learn on Line (LOL) access.

Good Practice

- Compliance with industry standard with regards to the complex password policies.
- Password self-service realising efficiency savings.
- Resilience in the provision of network administration support.
- A LOL course on Cyber Security has been developed and will be rolled out to all employees with LOL access.

Report

6

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	18 September 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	The National Fraud Initiative 2016
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of the results of the 2016 National Fraud Initiative for Scotland as reported by Audit Scotland in its July 2018 Report – The National Fraud Initiative in Scotland.
- ◆ highlight the key points specifically in relation to South Lanarkshire Council
- ◆ identify further action, where required.

2. Recommendation(s)

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

- (1) that the contents of this report are noted
- (2) that the action plan at Appendix 1 is noted

3. Background

- 3.1. The National Fraud Initiative (NFI) is a counter-fraud exercise whereby data is taken from Councils and other public bodies and cross matched to identify the potential for fraud. Councils are then informed of the resulting indicative matches. It is the responsibility of Councils to investigate the matches. Audit Scotland is responsible for co-ordinating the Scottish exercise.
- 3.2. South Lanarkshire Council has taken part in National Fraud Initiatives since 2004/05. Until 2014, the focus of the exercises alternated annually between a limited exercise and a full exercise. The limited exercise compared the electoral register and council tax data to detect cases where single person discount (SPD) is being claimed and there is more than one person over 18 in the household. The full exercise involved Council wide comparisons including benefits, payroll, creditors, licences, insurance claims, blue badge holders, recipients of direct funding and private nursing home residents. In addition to being matched to other benefits and payroll data, records were also matched to Department for Work and Pensions (DWP) deceased persons' records and the UK Border Agency (UKBA) records.
- 3.3. The full exercises continue to be undertaken every two years, however, there is now the option to undertake the SPD exercise annually. South Lanarkshire Council exercised this option in 2016, therefore, this NFI exercise included both the full and the SPD exercise.
- 3.4. The data used in the 2016 exercise related to the information held as at 3 October 2016 for the full exercise. The council tax data was extracted from information held

as at 1 October 2016 and matched against the Electoral register as at 1 December 2016. This information was uploaded to the NFI website by the due dates.

- 3.5. The matches were made available to the Council for the full exercise and the SPD exercise in January 2017 and December 2016 respectively. The investigations into these matches commenced in the 2017/18 financial year.
- 3.6. Within South Lanarkshire Council, Internal Audit co-ordinates the NFI exercise. However, each Resource has been assigned the responsibility for preparing and implementing a strategy for investigating the matches relevant to them.
- 3.7. All matches are accessed through a secure National Fraud Initiative website. Access to the website is restricted to authorised users only. Employees from each Resource are given access to matches relevant to them for the duration of the exercise. The results are updated directly onto the website by the employee investigating the match. Updates indicate whether an error, fraud or overpayment has occurred or whether further investigation is required. The results recorded through the secure website and the feedback provided by organisations' External Auditors are used to collate the Audit Scotland report.

4. Results

- 4.1. 113 Scottish public bodies including central government, local authorities and NHS bodies took part in the 2016 NFI exercise. This is an increase from the previous exercise where 104 bodies took part and is partly as a result of the participation of further education organisations in the 2016 exercise.
- 4.2. The increase in the number of bodies participating in the exercise and the new matches has contributed to the increase in the number of matches from 347,715 to 656,955 and an increase in the resulting outcomes for the Scottish exercise from £16.8 million to £18.6 million for the 2016 exercise. However, there were additional matches carried out on existing datasets and also three new datasets introduced for the 2016 exercise, Council Tax Reduction scheme, waiting lists and procurement.
- 4.3. Excluding the new matches, there was a reduction of 19% (2,636) in the number of South Lanarkshire Council matches from the last exercise in 2014. This decrease is considered to reflect the success of previous exercises and the improvements made to the quality of data provided by the Council. A further 10,883 matches resulted from the introduction of new datasets and additional matches run against existing data sets.
- 4.4. Excluding SPD outcomes, South Lanarkshire Council has recorded approximately £0.045 million of outcomes from the 2016 exercise to date. This is a net decrease of £0.042 million (48%) from the previous exercise. The net decrease has resulted from a decrease in outcomes from benefit investigations and creditors' investigations of £0.051 million, offset by an increase of outcomes from payroll investigations of £0.009 million.
- 4.5. There were £0.047 million outcomes resulting from the review of 680 SPD cases in 2016, there were no outcomes identified from the previous SPD NFI exercise. The number of investigations carried out in the previous exercise was limited to 50 cases as reliance was placed on the external review carried out in this area.
- 4.6. The increase in the number of payroll outcomes could be attributable to one payroll error, where a former employee continued to be paid after leaving the Council.

- 4.7. The decrease in outcomes from Housing Benefit matches may be as a result of the increase of ongoing reviews within Benefits and Revenues, including Real Time Information (RTI) reviews which identify fraud and error quickly and will decrease the number of cases being identified within Housing Benefit matches, a reduction of 1,490 (51%) Housing Benefit matches from the previous exercise.
- 4.8. Recovery action is being taken by South Lanarkshire Council for approximately £0.030 million (64%) of SPD outcomes and £0.034 million (76%) of other outcomes identified.
- 4.9. It is South Lanarkshire Council's policy to pursue and recover all overpayments, where possible. All payroll and creditors' overpayments have been recovered and Housing Benefit and SPD overpayments are being recovered in line with the Council's debt recovery procedures. Housing benefit and SPD overpayments are assessed in relation to their value and the information available before proceeding with the recovery. Each case is assessed individually and various factors are considered before recovery is progressed, including the age and health of the debtor and whether it is economical to pursue the debt.
- 4.10. Within Scotland, the most successful matches in terms of financial outcomes were council tax discounts (24%), 89% of which resulted from SPD investigations, pensions (34%), blue badges (14%) and housing benefits (11%). South Lanarkshire Council is not an administering body for pensions, therefore, it is not possible to provide comparable information in this area. The financial outcomes within South Lanarkshire Council resulted from the SPD review (51%), creditors' investigations (20%), Housing Benefit investigations (19%) and payroll investigations (10%).
- 4.11. In addition to taking part in the NFI exercises, the Council also places reliance on ongoing Housing Benefit Matching Service (HBMS) and Real Time Information (RTI) reviews and targeted SPD reviews to identify fraud and error. Potential Housing Benefit Fraud identified through the HBMS and RTI is forwarded to DWP for further investigation. SPD fraud and error is dealt with by the Council.
- 4.12. Fraud and error identified through the HBMS and RTI reviews are not recorded through the NFI website, therefore, these outcomes will not be included in the NFI results.
- 4.13. The 2018/19 SPD targeted review carried out for South Lanarkshire resulted in the cancellation of 1,204 discounts and an annual saving of £0.293 million. The NFI website has been updated to reflect the results of the review, where required. However, not all cases included in the review will be included in the NFI match results. Due to the timing differences between the two exercises, 47 errors valued at £0.011million were included in both reviews.
- 4.14. It is not mandatory for Councils to investigate matches resulting from the NFI exercise. However, Audit Scotland carries out checks within Councils to ensure that, where they are not investigating NFI matches, they have alternative arrangements in place. South Lanarkshire Council's external auditors reviewed our approach and were satisfied that adequate arrangements were in place.
- 4.15. External Auditors also review and conclude on the effectiveness of local arrangements in terms of how well the NFI exercise is integrated into counter fraud policies and provide assurance on the progress being made on NFI investigations.

- 4.16. As a result of these reviews, Audit Scotland concluded that, on the whole, the majority (83%) of participating bodies in Scotland managed their role in the 2016 NFI exercise satisfactorily. However, 7% of bodies need to follow up their matches more promptly and only 15% of audit committees reviewed the self assessment checklist.
- 4.17. The self assessment checklist was completed by Internal Audit at the start of this NFI exercise, however, it was not reviewed by the then Risk and Audit Scrutiny Forum. A copy of the completed 2018 checklist will be included in future reports to the Risk and Audit Scrutiny Committee.
- 4.18. Of the 12 separate areas assessed by South Lanarkshire Council's external auditors, seven were assessed as green, the remaining five areas were assessed as amber, there were no areas assessed as red. The areas assessed as amber were mainly as a result of delays in the completion of investigations. The target completion date for all investigations, with the exception of Housing Benefits, was agreed as 30 September 2017. The main delays were in the completion of Tenant and Waiting List investigations as the Council was waiting on information for external parties in order to conclude these investigations. There had also been a delay in completing the Blue Badge investigations as a result of a large number of matches and limited resources available to carry out the investigations. All Services have been reminded of the importance of completing investigations within reasonable timescales to ensure error and/or fraud is identified timeously.
- 4.19. Despite this, External Audit concluded that; "Overall, South Lanarkshire Council demonstrates adequate participation in the National Fraud Initiative exercise. The Council is actively involved in the process and it is undertaken as a serious exercise. Commitment to the NFI process is recognised as a key feature of fraud prevention and detection for the Council. The majority of the internally agreed work has been completed. A small number of errors have been identified and funds recovered. On the basis that there are some delays in completion of the exercise as a whole, this is classified as amber but is not a significant concern".
- 4.20. Preparation for the 2018 NFI exercise has started and Internal Audit will continue to co-ordinate this exercise within the Council.

5. Audit Scotland Recommendations

- 5.1. The Audit Scotland Report included five recommendations to be considered by NFI participants.
- 5.2. Detail of these recommendations, and further action required, is included in Appendix One. It should be noted, however, that the recommended areas are routinely considered at the start of all NFI exercises and will be addressed through the resources allocated to NFI in the 2018/19 Internal Audit Plan, where required.

6. Employee Implications

- 6.1. Within Internal Audit, 38 days were recorded against the 2016 National Fraud Initiative. This was split between project management and supply of information to Audit Scotland (23 days), investigating matches (10 days) and co-ordinating the issue and receipt of further information between the Council and other public bodies (5 days).
- 6.2. Resources were also asked to provide details of time spent investigating NFI matches and it is estimated that, in addition to Internal Audit time, approximately 64 days were spent on the NFI exercise in other Resources. The majority of this, 10 days each, was spent investigating payroll, blue badge and waiting list matches.

- 6.3. Overall, there has been a reduction in the time spent investigating NFI matches from the previous exercises. The reduction in time is mainly within Housing Benefits investigating matches. The reduction in time in this area is as a result of the introduction of the Fraud and Error Service (FES) which is responsible for investigating potential frauds. In addition, the Benefits and Revenue Section has reduced the internal resources allocated to the SPD exercise, as it places more reliance on internal and external reviews that are undertaken. The reviews are carried out in current periods and are perceived to be more relevant and timeous than those identified by the NFI exercise.

7. Financial Implications

- 7.1. The 2016 National Fraud Initiative was included in the 2017/18 Annual Audit Plan with a budget of 40 days.
- 7.2. The employee costs within South Lanarkshire Council for participation in the 2016 NFI exercise equated to approximately £0.017million. In total, approximately £0.092 million error and fraud was identified through both the full 2016 exercise and the SPD exercise, £0.064 million of which is being recovered. This, therefore, suggests that the exercise continues to be cost effective. This will, however, continue to be monitored for future exercises.

8. Other Implications

- 8.1. The NFI is an invaluable counter fraud exercise. A key benefit of the NFI is that, by identifying fraud and error, the Council is able to establish why these instances occurred and make improvements, where necessary, thereby preventing future financial losses.
- 8.2. Investigations are undertaken by Resource personnel and, as a result of continuous Internal Audit review and monitoring of the NFI exercises, there has been significant improvement to the approach to the NFI exercise, specifically in relation to selecting cases to be investigated, carrying out the investigations and recording the results through the NFI website.
- 8.3. In addition, following the 2016 exercise, creditor reports have been developed to allow employees to monitor creditor payments and help identify potential duplicate creditors. These reports will initially be run monthly, however, it is anticipated that this will be increased to daily to allow duplicates to be identified prior to payment being made and to avoid the requirement for recovery. It is anticipated that this will significantly reduce the number of potential creditor matches resulting from the NFI exercise and ensure fraud and error is reduced.
- 8.4. Failure to participate in this exercise would increase the risk of fraudulent activities committed against the Council not being identified. In addition, the Council's External Auditors' work includes a review of our governance and financial arrangements, including action to prevent and detect fraud. Active participation in the NFI is one way the Council can demonstrate good governance and sound financial management. The External Auditor will also review and conclude on the effectiveness of local NFI arrangements and provide assurances on the progress of the NFI investigations. Failure to embrace investigative work under the NFI could adversely affect the Council's reputation as Audit Scotland publishes national reports on the initiative following the conclusion of each full exercise.
- 8.5. There are no implications for sustainability in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. Prior to the start of each NFI exercise, the Council is required to ensure privacy notices are available to the individuals on whom we are sharing information. The notices should clearly set out an explanation that their data may be disclosed for the purpose of preventing and detecting fraud. It should also state that their data will be provided to Audit Scotland for this purpose and it should contain details of how individuals can find out more information about the processing of the data.
- 9.2. Details of data extracts that affect employees are intimated through Management Bulletins and Personnel Circulars. Information on the 2016 National Fraud Initiative was also published in the Works Magazine and on the South Lanarkshire Council Internet site. In addition, Housing Benefits claim forms include a standard statement informing claimants that their information may be shared for the purposes of preventing and detecting fraud.
- 9.3. There is no requirement to carry out an impact assessment in terms of the proposals contained within this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

29 August 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ♦ 2016 National Fraud Initiative report – 20 September 2017

List of Background Papers

- ♦ Audit Scotland Report: The National Fraud Initiative in Scotland (July 2018)

Contact for Further Information

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

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E-mail: yvonne.douglas@southlanarkshire.gov.uk

Audit Scotland Recommendation	South Lanarkshire Response	Action	Responsibility	Target Completion Date
All Participants in the NFI exercise should:				
<p>Ensure that they maximise the benefits of their participation. They should consider:</p> <ul style="list-style-type: none"> Using the NFI AppCheck point of the application service, the flexible matching service and the Equifax Public Sector Gateway Service as appropriate when planning their counter-fraud activities Whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application 	<ul style="list-style-type: none"> Additional costs will be incurred if the AppCheck Service is used. Benefits and Revenues will continue to carry out reviews and Internal Audit will use IDEA for other Data Matching exercises where required. Therefore this service is not considered currently to be necessary but will remain under review. NFI guidance is forwarded to all employees responsible for investigating matches at the start of each exercise. Internal Audit advises all employees to complete the online training prior to undertaking investigations. Training was also provided by Internal Audit to “new” investigators and ongoing support provided where required Assessment will be carried out against “how to work more efficiently” guidance included as Appendix 2 in the self appraisal checklist 	<ul style="list-style-type: none"> Further research will be carried out into the cost/benefit of using the Appcheck and/or the Equifax Public Sector Gateway Service. Internal Audit will continue to refer employees to guidance within the NFI website and will recommend completion of the online training. Internal Audit will provide additional training if required and support employees through their investigations where required. Assessment completed. No further actions identified (see Appendix Two). 	<p>Yvonne Douglas, Internal Audit</p> <p>N/A</p> <p>Yvonne Douglas, Internal Audit</p>	<p>31 March 2019</p> <p>N/A</p> <p>Completed</p>
Audit committees, or equivalent, and	The self appraisal checklist has been	Completion of the Self	Yvonne Douglas, Internal	31 October 2018

officers leading the NFI should review the National Fraud Initiative: Self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise.	completed by Internal Audit at the start of each NFI exercise since 2010. The completed self appraisal checklist is included in the review of the NFI process carried out by the Council's External Auditors.	Assessment Checklist is included within the Internal Audit NFI Project Plan. The completed checklist will be included within NFI update reports presented to the RASC.	Audit	
Where local auditors have identified specific areas where improvements could be made, the public bodies should action these as soon as possible.	No areas identified by external Audit review of the process	None required	N/A	N/A
Local authorities should:				
Investigate the council tax single person discount (SPD) matches, in conjunction with other data-matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid.	In addition to reviewing and investigating a sample of NFI matches, the Benefits and Revenues Section place reliance on ongoing internal and external reviews. Increased targeted intervention activity is also being undertaken as part of the Fraud and Error Reduction Incentive Scheme (FERIS). This is in addition to Housing Benefit Matching Service (HBMS) and Real Time Information (RTI).	No additional action required	N/A	N/A

Concerns	How to work more efficiently	South Lanarkshire Council Response
Many participants are not using the latest time-saving enhancements to the NFI software.	Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.	Internal Audit will continue to refer employees to guidance within the NFI website and will recommend completion of the online training. Internal Audit will provide additional training if required and support employees through their investigations where required. (No action required)
Matches that are time critical and could identify an overpayment are not acted on first.	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as these are received.	There is no one Resource responsible for investigating all matches. As the matches are investigated by different Resources, there is no requirement to prioritise the investigation areas. Match areas will be investigated at the same time. Details of matches are forwarded to relevant Resources for investigation within one week of being received by Internal Audit. Resources are then required to set timescales for investigations which are reviewed by Internal Audit to ensure they are reasonable. With the exception of Housing Benefits which, due to the number of investigations carried out, undertake investigations throughout the whole financial year, all other investigations are completed within three to six months of being received. Consideration is currently being given to increasing Internal Audit involvement in investigating the matches (other than Housing Benefits). Investigations carried out by Internal Audit would be on a risk assessed basis and an allocation of time for NFI investigation is included within annual Internal Audit Plans where required. (No action required)
Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments.	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.	Internal Audit co-ordinates the NFI exercise within the Council. Resources allocate employees who are best suited to investigate the matches. There is no duplication in the investigations carried out. (No action required)
Disproportionate time is spent looking into every match in every report.	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.	On receiving details of the matches from the NFI exercise, Resources are required to advise Internal Audit of the target number of investigations to be undertaken. Internal Audit will review the target set to ensure it is reasonable. The

		<p>number chosen is risk based and considers the results of previous exercises, the time spent on the investigation and other control measures in place within the Resource that would mitigate the risk of fraud occurring. Consideration is also given to Audit Scotland recommended actions. The target is continually reviewed during the course of investigations and adjusted to reflect the identified outcomes where required. In addition, investigations are prioritised by Resources to cover key reports, high risk areas and high quality matches highlighted within the NFI reports.</p> <p>(No action required)</p>
Enquiries from other organisations that take part in the NFI are not always responded to promptly.	Prioritise responses to enquiries from other organisations so investigations can be progressed.	<p>Internal Audit co-ordinates enquiries from other organisations and has set a target response of seven days. There are two employees within Internal Audit who are responsible for following up enquiries from other organisations. There was a more proactive approach by Internal Audit for the 2016 exercise to ensure queries recorded through the NFI website were followed up timeously and this approach will continue in future exercises.</p> <p>(No action required)</p>
Data quality issues that are highlighted within the web application are not addressed before the next NFI exercise.	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.	<p>Data quality issues are reviewed by Internal Audit after data submission and steps are taken to address the issues where required. There were no data quality issues identified in the 2016 exercise that require to be addressed.</p> <p>(No action required)</p>

Report

7

Report to: **Risk and Audit Scrutiny Committee**
 Date of Meeting: **18 September 2018**
 Report by: **Executive Director (Finance and Corporate Resources)**

Subject: **Fraud Statistics Annual Report 2018**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of the fraud statistics for the year to 31 March 2018 and a comparison to the statistics to 31 March 2017.

2. Recommendation(s)

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

- (1) that the contents of this report are noted.

3. Background

- 3.1. Collating and reporting fraud statistics and setting targets for improvement are considered best practice by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Local Authority Risk Managers (ALARM).
- 3.2. This report provides information on the number, types and outcomes of fraud investigations within South Lanarkshire Council together with a comparison to the statistics for the same period in 2017. It includes all frauds reported to Internal Audit during the year to 31 March 2018, South Lanarkshire Council benefit frauds during this period investigated by the Department for Work and Pensions (DWP) and insurance losses resulting from a failure in internal controls or which have been investigated by Internal Audit.
- 3.3. Although the responsibility for housing benefit fraud investigations has transferred to the DWP Fraud and Error Service (FES), South Lanarkshire Council retains responsibility for recovery of fraud overpayments. Therefore, housing benefit fraud statistics will continue to be included within the fraud statistics reported. As it will be necessary to rely on FES to provide details on proven South Lanarkshire Council fraud cases, this may result in a delay in reporting.
- 3.4. The roll out of Universal Credit to all new benefits applicants in October 2017 will have an impact on the number of Housing Benefit claimants. The roll out has, however, not had a significant impact on the fraud statistics for the period to 31 March 2018 but it is expected that the number of benefit fraud cases will decrease in future periods. The Council will continue to pursue all Housing Benefit fraud overpayments, where appropriate.

- 3.5. The Internal Audit Section completed a procedural check on Universal Credit in 2016/17 and was satisfied that procedures were in place to timeously identify and stop Housing Benefit payments to claimants who have moved to Universal Credit and avoid overpayments. Further audit work in this area to obtain assurance that the procedures are working as intended has been included in the 2018/19 Internal Audit Plan.
- 3.6. The Benefits and Revenues Section continues to deliver an annual programme of rolling reviews on benefit system claimants with reviews based on risk-profiling to target the most likely areas of benefit fraud or overpayment. Information is also obtained from Her Majesty's Revenue and Customs (HMRC) through Real Time Information (RTI) and DWP through the Housing Benefit Matching Service (HBMS). Where fraud is suspected, the case will be passed to the FES for investigation and, if proven, the case returned to South Lanarkshire Council to pursue recovery.

4. Results

- 4.1. All concerns reported to Internal Audit are recorded on the corporate risk management system, Figtree. Each concern is risk assessed with high risk areas investigated by Internal Audit, medium risks investigated by Resources and low risks registered for monitoring of trends. Joint investigations may also be carried out by Resources and Internal Audit depending on the nature of the fraud and the operational knowledge required.
- 4.2. The Benefits and Revenues Section continues to supply details of the number and value of benefit frauds investigated by FES, the amounts recovered by the Council and the sanctions imposed for consolidation with the information held by Internal Audit. The Risk Management Section is responsible for collecting and recording all insurance losses. Information relevant to these statistics is provided to Internal Audit on a six monthly basis.
- 4.3. An analysis of the fraud caseload for the years to 31 March 2017 and 2018 respectively are detailed in Table One.

Table One - Fraud Caseload

Status	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	78	465	118	368
Concerns reported during year	102	280	123	333
Caseload in 2017/2018	180	745	241	701
Cases closed during year (see Table Two)	(62)	(377)	(126)	(307)
Work in progress at year end	118	368	115	394

- 4.4. The increase in the in-year caseload can be attributed to the number of benefits cases carried forward from previous years. This is mainly as a result of delays in concluding cases before these are passed back to South Lanarkshire Council for recovery. The decrease in value can be mainly attributed to one high value Internal Audit investigation which was included in the 2017 statistics.
- 4.5. More cases were closed in 2017/18, reflecting improving performance in the closing of Housing Benefit investigations.

- 4.6. There were 99 benefit fraud cases reported in 2017/18. Of these cases, 57 (58%) resulted from RTI, HBMS or National Fraud Investigation (NFI) reviews. The remaining 42 cases (42%) resulted from FES investigations.
- 4.7. In addition, a further 144 investigations are currently ongoing within FES. This is a decrease of 254 cases from the same period last year. These ongoing cases are not included in the fraud statistics as they have not been confirmed as fraud. If confirmed, they will be included in future reports.
- 4.8. An analysis of closed cases in the year is detailed in Table Two:

Table Two - Analysis of Closed Cases

Source of fraud	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	35	303	104	296
Insufficient information	9	0	14	11
Unfounded allegations	18	74	8	0
Total	62	377	126	307

- 4.9. 82% of all cases that were investigated were founded and, for all founded investigations involving an employee, disciplinary action was considered.
- 4.10. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
External	5	19	15	26
Internal	4	201	1	0
Benefits	26	83	88	270
Total	35	303	104	296

- 4.11. 99% of all founded cases relate to Benefit Fraud cases or fraud committed by a third party.
- 4.12. In respect of all founded cases, where appropriate, South Lanarkshire Council seeks to recover financial losses. The value of both previous and current year recoveries has decreased from £66,000 in 2016/17 to £46,000 in 2017/18. All recoveries reported in this period relate to benefit fraud. Previous year recovery rates will decrease over time as it is inherently more difficult to recover older debts.
- 4.13. The cost of investigations concluded by Internal Audit has increased from the same period last year. The cost of the investigation reflects the complexity of the investigations and the time required to conclude the investigation. The majority of costs £33,000 were incurred investigating founded cases and the investigations resulted in implementation of improvement plans in four areas and the disciplinary process being invoked for nine employees.
- 4.14. Time budgets and target completion timescales for investigations are set at the start of each audit and will vary depending on the nature of the investigation. Performance measures for investigations undertaken by Internal Audit are reported and monitored together with routine audit performance measures through local Performance Indicators and to the Risk and Audit Scrutiny Committee.

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made as to whether improvement action is necessary. If deemed necessary, an improvement plan will be issued containing recommended actions. These improvement plans are agreed with the relevant Heads of Service and the actions followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. Outcomes for concluded investigations will be reported to the Risk and Audit Scrutiny Committee, when finalised, as part of routine updates. There were four action plans resulting from fraud investigations issued and agreed during the year to 31 March 2018. There were 74 actions included within these plans. All high priority actions will be followed up in 2018/19 in line with Internal Audit procedures.

6. Employee Implications

- 6.1. South Lanarkshire Council has a zero tolerance approach to fraud. All employees have a role to play in reducing fraud within the Council and should understand the risk of fraud faced by the Council, that fraud is serious and that it diverts resources away from the Council's primary objectives.
- 6.2. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access. It is recommended that all employees complete this course to further strengthen their fraud awareness. Further work is currently being undertaken by Internal Audit, in consultation with Personnel Services, to review the content and format of the LOL course to ensure it is still relevant and is accessible to all employees. In addition, Internal Audit is currently in discussions with Police Scotland to explore the potential for the provision of targeted anti-fraud training to Council employees.
- 6.3. The Committee will be advised of all updates to the LOL course and external training undertaken. Statistics in relation to employees completing the anti-fraud awareness courses will be provided in future update reports.

7. Financial Implications

- 7.1. The investigation of fraud and the collection and reporting of fraud statistics will be carried out within existing resources. Time will continue to be allocated within the annual Internal Audit Plan to review fraud risk areas and will include contingency time to undertake fraud investigations.
- 7.2. A total of 236 days was allocated within the 2017/18 Internal Audit Plan for Fraud Risk work. This includes an allowance of contingency time to undertake fraud investigations, where required. An additional allowance of 40 days was allocated to the NFI exercise.

8. Other Implications

- 8.1. Fraud Risk is recognised as one of the top risks facing South Lanarkshire Council. This risk is significant as it can adversely affect the delivery of Council objectives and erode valuable resources. It is, therefore, important that the risk of fraud is soundly managed.
- 8.2. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management Procedures.
- 8.3. The collection and reporting of fraud statistics should assist in the management of fraud by identifying patterns and trends of fraud and areas of high risk where preventative controls should be concentrated. However, in order to do this effectively, fraud statistics must be complete. This remains an area where practice could be improved and it is, therefore, important that all instances of potential and actual fraud

are reported to Internal Audit. Further work will be undertaken by Internal Audit to promote the Council's Fraud Response Plan which should help to ensure all known fraud concerns are reported and that employees are made aware of the systems in place within the Council for reporting suspected or actual fraud. To support this process, a protocol has been prepared and agreed with the new fact finding team within Personnel Services.

- 8.4. In order to ensure the Council is fully aware of, and prepared for, emerging fraud risks, Internal Audit carried out self-assessment against good practice guidance in fraud management. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management, where required.
- 8.5. Areas within the Council that inherently have a higher risk of fraud are considered for inclusion in the Corporate Fraud Plan within the annual Audit Plan. One area of specific concern identified was in relation to contract award, specifically in relation to contracts awarded through Frameworks. This area has been included in the 2018/19 Internal Audit Plan.
- 8.6. There are no sustainability issues in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to undertake an equality impact assessment.
- 9.2. Consultation was not necessary for this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

31 August 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- Fraud Statistics Six Monthly Update to the Risk and Audit Scrutiny Forum, 21 March 2018
- Annual Fraud Report to Risk and Audit Scrutiny Forum, 20 September 2017

List of Background Papers

None

Contact for Further Information

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

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Report

8

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	18 September 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Forward Programme for Future Meetings
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise members of the forward programme for the meeting of the Risk and Audit Scrutiny Committee to be held on 14 November 2018
- ◆ invite members to suggest topics for inclusion in the Committee's forward programme

2. Recommendation(s)

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

- (1) that the report and the outline forward programme for the meeting of the Risk and Audit Scrutiny Committee to be held on 14 November 2018, attached as an appendix to the report, be noted.

3. Background

3.1 As part of a range of improvement measures introduced as a result of Audit Scotland's report on the Audit of Best Value and Community Planning (2009), an Action Plan was prepared. One of the actions was to include, as a standard agenda item, a list of items proposed for consideration at subsequent meetings of this Committee to provide an opportunity for members to inform future agendas. The outline forward programme for is attached, for members' information, as an appendix to the report.

4. Employee Implications

4.1. There are no employee implications.

5. Financial Implications

5.1. There are no financial implications.

6. Other Implications

6.1. There are no risk or sustainability issues associated with the content of this report.

7. Equality Impact Assessment and Consultation Arrangements

7.1. The 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.

7.2. There was no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

4 September 2018

Link(s) to Council Values/Objectives/Ambitions

Value – Accountable, Effective, Efficient and Transparent

Previous References

Executive Committee 8 July 2009

List of Background Papers

Audit Scotland Audit of Best Value and Community Planning

Contact for Further Information

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

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APPENDIX – RASC OUTLINE FORWARD PROGRAMME – November 2018

Meeting Date	Item	Responsibility
14 November 2018	1. Internal Audit Activity Report	Audit and Compliance Manager
	2. Year End Insured Risk Report	Head of Finance (Transactions)
	3. Year End Risk Management Report	Head of Finance (Transactions)
	4. Efficiency Savings	Head of Finance (Strategy)
	5. Challenges and Performance	Head of Corporate Communications and Strategy

N.B:-. Audit Scotland national studies and reviews will appear as a recurring item but the frequency and subject matter will vary according to their programme.

