South Lanarkshire Council

2020/21 Annual Audit Report

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

November 2021

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Key messages

2020/21 annual accounts

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

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

3 Over several years we have identified a number of errors in the accounting for non-current assets. While the errors identified have been corrected in the accounts, the council needs to review its procedures for accounting for non-current assets.

Financial management

4 Financial management is effective. The financial impact of Covid-19 has been reported to members.

5 The pandemic had a significant impact on the council's 2020/21 budget outturn position. A budget underspend of £77.224 million is reported. £32.390 million of the underspend related to unspent Covid-19 funding.

6 Costs relating to the Covid-19 pandemic totalled £35.800 million in 2020/21. The council received £68.190 million of direct funding, and administered £77.556 million of agency income, provided by the Scottish Government in 2020/21.

7 The unspent Covid-19 funding of £32.390 million contributed significantly to the £41.401 million increase in general fund reserves at March 2021. £27.861 million of this unspent funding was received late in the financial year from the Scottish Government.

Financial sustainability

8 Covid-19 funding increased the council's reserves, but these funds will be required to meet ongoing financial pressures. Recovery from the pandemic is a key element of the council's 2021/22 budget.

9 Medium and longer-term financial plans are in place but should be updated to reflect the impact of the pandemic. This is the case for all councils.

Governance and transparency

10 Effective governance and decision making-arrangements were in place during 2020/21, with appropriate adjustments made to these to reflect the ongoing disruption caused by the pandemic.

11 Internal controls operated effectively during 2020/21.

12 The council has in place appropriate arrangements for prevention and detection of fraud and corruption, with work undertaken in the year to counter potential fraud risks from Covid-19.

Best Value

13 Good progress has been made in addressing the recommendations from the Best Value Assurance Report (March 2019).

14 The council demonstrates a clear focus on delivering Best Value, with its rate of performance improvement remaining consistent over recent years. The way that some services have been delivered changed to reflect the needs of communities during the pandemic.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of South Lanarkshire Council (the council) and its group.

2. The scope of the audit was set out in our 2020/21 annual audit plan presented to the March 2021 meeting of the Risk and Audit Scrutiny Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 namely, financial management, financial sustainability, governance and transparency and value for money.

Responsibilities and reporting

3. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

4. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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

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

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

7. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Adding value through the audit

10. In addition to our primary responsibility of reporting on the annual accounts we seek to add value to the council by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the annual accounts auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £516,575 as set out in our annual audit plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

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

Main judgements

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

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

The council approved the reprofiling of loans fund advance repayments during the year. The methodology applied to reprofile the repayments is in line with the council's new accounting policy and the guidance in this area. Due to this change the council's loans fund repayments were reduced by £12.160 million in 2020/21.

Over several years we have identified a number of errors in the accounting for non- current assets. While the errors identified have been corrected in the accounts, the council needs to review its procedures for accounting for non-current assets.

Our audit opinions on the annual accounts are unmodified

15. The annual accounts for the council and its group for the year ended 31 March 2021 are to be approved by the Risk and Audit Scrutiny Committee on 17 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the management commentary, the annual governance statement and the remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

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

The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

17. As a result of the continuing impact of Covid-19 the submission deadlines for Local Government audited annual accounts and annual audit reports have been set at 30 November 2021.

18. Despite the ongoing restrictions caused by the Covid-19 pandemic, we received the unaudited annual accounts on 29 June 2021 in line with the agreed audit timetable. The annual accounts submitted for audit were of a high standard as were supporting working papers. The exception to this is the accounting for non-current assets which is discussed further in item 2 in exhibit 2. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

19. Although later than initially first planned, due to challenges in completing the audit remotely, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid19.

There were no objections raised to the annual accounts

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. There were no objections to the 2020/21 annual accounts.

Our audit identified and addressed the risks of material misstatement

21. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit, we identified a number of key audit risks which could impact on the annual accounts. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix 2 sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the annual accounts.

Our audit testing reflected the calculated materiality levels

22. Materiality can be defined as the maximum amount by which auditors believe the annual accounts could be misstated and still not be expected to affect the perceptions and decisions of users of the annual accounts. 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).

23. Our initial assessment of materiality for the annual accounts is undertaken during the planning phase of the audit. On receipt of the unaudited annual accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at exhibit 1.

Exhibit 1
Materiality levels

Materiality levels	Amount
Overall materiality- This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021.	£13.375 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 calculated performance materiality at 50% of planning materiality.	£6.690 million
Reporting threshold- We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold' amount. This has been set at 1% of planning materiality.	£0.135 million

Source: Audit Scotland

Identified misstatements of £18.822 million were adjusted in the accounts, these were more than our performance materiality and as such we revised our audit approach accordingly

24. We identified 13 misstatements, including misclassifications, with a gross value of £18.822 million in the unaudited annual accounts. Six of the misstatements, totalling £6.079 million, related to the non-current assets. As the total was above our performance materiality level, we revised our audit approach accordingly and increased audit testing in some areas.

25. Management have now adjusted the accounts to correct all the misstatements. These adjustments have contributed to the total comprehensive net income increasing by £4.884 million, with a corresponding increase in total reserves. Further details of these adjustments are included in exhibit 2.

We have significant findings to report on the annual accounts

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”. The qualitative aspects of the council’s accounting practices, accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate to the council.

27. Significant findings are summarised at exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the action plan in appendix 1 has been included.

28. In addition to the issues set out below, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Exhibit 2

Significant findings from the audit of the annual accounts

Issue	Resolution
1. Loans fund reprofiling As detailed at paragraphs 29 - 35 in June 2020 the council approved a change in the method used to schedule repayments, from the general fund, for outstanding debt relating to advances from the loans fund. An element of the accounting treatment for the loans fund review involved profiling a recalculation adjustment. Following audit discussions on the profiling of this amount, the council made a change to the unaudited accounts to ensure the profiling better reflected the remaining asset lives that the borrowing financed. The impact of this was to reduce the 2020/21 loans fund repayments from £6.544 million to £2.028 million and increase the councils reserves by £4.516 million.	For information only. Audit's view is that the amended accounts include loans fund repayments that reflect the council's new accounting policy and guidance in this area.
2. Accounting for non-current assets Our testing of the council's non-current assets identified the following issues: • Several assets with a nil book value were found to still be in use and as such required to be revalued. This resulted in a net increase of £3.864 million to the council's asset portfolio. • An asset with a net book value of £0.792 million was disposed of. However, as at 31 March 2021, the council still operated from this building, with the sale not scheduled to be concluded until January 2022. • An asset with a net book value of £0.360 million was noted as being disposed of (demolished). However, as at 31 March 2021, this asset was still held by the council and no demolition date has been set.	Management have corrected the misstatements in the audited annual accounts for each of the issues identified. In response to the issues, we undertook additional audit testing across a range of asset categories. Over the course of our audit appointment a large number of misstatements have been identified with the accounting treatment of the council's non-current assets. These have resulted in significant changes to the annual accounts. Clear year-end communication between Property Services and Corporate Finance is required to ensure accounting records are complete and accurate for the annual accounts.

Issue	Resolution
• Land with a value of £0.240 million was omitted from the asset register. • There was a misclassification of a recently purchased asset resulting in a movement of £0.622 million between assets under construction and other land and buildings.	**Recommendation 1 (appendix 1, action plan)**
3. Assets held for sale When an asset is re-classified as being held for sale, consideration should be given to its value in the accounts. There is an expectation that assets held for sale should achieve a sale within one year. Given the current climate, we recognise that this may not always be the case. However, for assets held longer than one year, a revaluation of these assets must be considered every year. Our testing identified one asset held for sale (since 2018/19) with a net book value of £0.651 million. This had not been revalued since 2016/17.	Management confirmed this asset is believed to have a valuation of £0.450 million, resulting in a £0.201 million overstatement. This has been adjusted for in the audited annual accounts. Management should ensure a process is in place to consider the appropriateness of the valuations for those assets classified as being held for sale. **Recommendation 2 (appendix 1, action plan)**
4. Accounting treatment of Covid-19 funding The Scottish Government provided Covid-19 grant support funding to all councils in Scotland in 2020/21. This is discussed at paragraphs 68 - 77. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance on the expected accounting treatment and disclosure requirements for the various grants. The main consideration for council's was to assess whether they were acting as the principal (i.e., the council is acting on its own behalf) or as an agent of the Scottish Government in the disbursement of the grants to third parties. Our assessment of the council's accounting treatment against this guidance noted the following differences:	Management have corrected the misstatements in the audited annual accounts.

Issue	Resolution
• **Discretionary fund:** £1.935m - accounted for as agency but should have been treated as principal. • **Self-isolation grants**: £0.499m - accounted for as principal but should have been treated as agency.	
5. Covid-19 funding guidance change After the unaudited accounts were produced, updated guidance relating to the accounting treatment for several Covid-19 grants was received from the Scottish Government and LASAAC. The council was required to amend the following: • A number of Scottish Government grants awarded to the council to assist with additional Covid-19 costs were provided as part of the General Revenue Grant. In line with original guidance, these were initially accounted for against the relevant resource line within the Comprehensive Income and Expenditure Statement (CIES). Late guidance from LASAAC resulted in a change to the accounting requirements of these grants and, as a result, £1.7 million of expenditure has been moved from the resource lines into “Taxation and Non-specific Grant Income”. • The council was provided with personal protective equipment (PPE) and Covid-19 testing kits for council staff totalling £3.482 million, free of charge. Late guidance determined that this should be accounted for in the annual accounts. There is a nil effect on the bottom line of the CIES. • Funding was provided for free school meals during the Easter holidays totalling £0.297 million. This had originally been treated as a prepayment in the annual accounts. However, clarification from Scottish Government and LASAAC indicated that these amounts should be included in the 2020/21 CIES. This change does not impact on the bottom line of the CIES or Balance Sheet.	The misstatements arose due to late Scottish Government guidance. Management have adjusted for these in the audited annual accounts.

Issue	Resolution
6. Provision for dilapidations Our audit testing identified £0.315 million relating to dilapidation costs which had not been provided for in the unaudited accounts.	Management have adjusted for this in the audited annual accounts.

Source: Audit Scotland

The council approved the reprofiling of loans fund advance repayments during the year which has reduced the annual payments from the general fund to the loans fund

29. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) came into force on 1 April 2016. These Regulations replace the statutory provisions for local authority borrowing, lending and loans funds as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.

30. The 2016 regulations make provision, with respect to the powers of local authorities, to borrow money and to maintain loans funds. The loans fund operates like an internal bank: it raises money externally and makes advances to council services, typically for large capital projects. The service repays the amount advanced over a specified number of years. Prior to the introduction of the 2016 regulations this repayment period was fixed at the outset and was not changeable.

31. The 2016 regulations give councils more flexibility in making their debt repayments, by allowing them to repay their outstanding loan debt over a different period if it can be considered prudent to do so. The advantage to a council of extending repayment periods is that reduced annual repayments are made by services, relieving short term pressures on revenue budgets. There is no impact on the overall level of debt that will be repaid but the term over which it is repaid is extended.

32. In June 2020, the Executive Director of Finance and Corporate Resources presented a business case to the council's Executive Committee. This reviewed the profile of the council's loans fund charges for the repayment of its underlying debt liability, in line with the life of the assets associated with that debt. The Executive Committee approved the implementation of the loans fund review. This resulted in a change in accounting policy for 2020/21 moving from the "statutory method" to the "asset life method" for future repayments for outstanding debt relating to advances from the loans fund.

33. The outstanding internal debt was £892 million, £75 million of this has previously been charged to services under the previous accounting policy. As a result, this has been treated by the council as a 'recalculation adjustment' and a balance of £817 million has been reprofiled under the new policy.

34. The Local government finance circular 7/2016: Loans Fund Accounting guidance requires the period over which loans fund repayments are profiled to be prudent. It says that 'prudent repayment of a loans fund advance is one which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure.' In our opinion the methodology used for reprofiling the council's loans fund balances is prudent based on the expectations of the circular and the council's new accounting policy.

35. The reprofiling of the debt reduced the council's repayment of loans fund principal recharges in 2020/21 by £12.160 million. The council will continue to benefit from an annual reduction in loans fund principal recharges up to 2045/46. It should be noted however that the total amount to be repaid is unaffected by the change. The reprofiling means that annual repayments will require to be made over a longer period than would have been the case under the "statutory method," as a result the council will incur additional interest charges over this period.

The council's 2020/21 management commentary provides a fair picture of its performance and operational activity for the year, including the impact from the pandemic

36. Management commentaries included in the annual accounts should provide information on the council, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a council's performance as well as helping stakeholders understand the financial statements.

37. The council's management commentary that accompanies the annual accounts explains how the council has performed against its budget and how this is reconciled to the financial statements. The impact of Covid-19 on the 2020/21 outturn and reserves position was clearly disclosed. The council has also included a good level of disclosure on the principal risks it is facing going forward. This includes details on how the pandemic will continue to be an area of focus for the foreseeable future, given its impact on all aspects of the council's operations.

The annual governance statement includes a good level of disclosure of the impact Covid-19 had on the council's governance arrangements during 2020/21

38. The council has a Local Code of Corporate Governance, and this is reviewed and updated annually. The local code follows the principles set out in the CIPFA /SOLACE Delivering Good Governance in Local Government: Framework 2016. The council's annual governance statement complies with this guidance and continues to represent good practice.

39. In response to Covid-19 and government imposed social restrictions, public bodies had to quickly change how they delivered services. The widespread use of virtual working and the rapid introduction of new programmes and services to support businesses and individuals, created a range of potential financial risks and challenges to internal controls. In its annual governance statement, the council has provided a good level of disclosure of the impact that Covid-19 has had on its governance arrangements in 2020/21. This includes a timeline of key events and decisions made during the year, including:

- In March 2020, the Chief Executive was granted delegated authority to ensure that the business of the council continued. At the time, committees were not able to meet due to restrictions on movements and gatherings. Decisions were made in consultation with the council's political group leaders and published on the council's website. These temporary decision-making arrangements were in line with the council's Scheme of Delegation.

- This delegated authority ceased when committee meetings began again in June 2020. From January 2021 committee meetings have been recorded and added to the council's YouTube channel for public viewing. Throughout the period, and in line with the council's standard governance arrangements, all meeting papers continued to be published on its website.

- Throughout the year, there have been various new government Covid-19 support grant schemes that the council has been responsible for administering. The council's internal audit function re-focused its annual workplan for the year to ensure risks relating to the pandemic were mitigated. This included providing assurance over these new grant expenditure streams through a high-level review of the controls in place.

- Several service changes were implemented. All council schools closed in March 2020, with hubs operating to provide facilities for children of key workers and vulnerable children. Additional IT equipment and licenses were purchased to allow staff who were able to, to work from home.

Good practice

The council was proactive in taking steps to ensure good governance arrangements were maintained during the Covid-19 pandemic.

The audited part of the remuneration report was consistent with the annual accounts and has been prepared in accordance with applicable regulations

40. The Local Authority Accounts (Scotland) Regulations 2014 requires the council to include a remuneration report within its annual accounts that includes details of:

- the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures at 31 March of that year, and

- the number and cost of exit packages approved during the financial year.

41. We have no issues to report in relation to the information included within the remuneration report in the council's 2020/21 annual accounts.

Good progress was made on prior year recommendations

42. We followed up on actions agreed in our 2019/20 annual audit report, to assess what progress on implementation had been made. Details of the follow up are included in appendix 1.

Our audit opinions on the annual accounts of the three section 106 charities administered by the council are unmodified

43. Elected members are trustees for 64 trusts administered by the council. Each trust has been included in one of three registered Scottish charities, exhibit 3.

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

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

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

46. We have given an unqualified opinion on the annual accounts of the three charities administered by the council and have nothing to report in respect of the other matters.

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

48. In early 2020, the council began the process of transferring the assets to the new charities. A first draft of the Transfer Deed had been prepared and work on completing the forms OSCR require for approving the transfer was in progress before it was interrupted by the Covid-19 disruption. A report to the council's Finance and Corporate Resources Committee in September 2021 confirmed that in the coming months most of the funds will be transferred over. However, this timeframe is dependent on OSCR timescales. As part of our 2021/22 audit activity, we will consider the latest position and report accordingly.

Exhibit 3
Charities administered by South Lanarkshire Council

Charity	Scottish Charity Number	Net Assets as at 31 March 2021
South Lanarkshire Council Charitable Trusts	SC025089	£1,000,098
East Kilbride Information Technology Centre Trust	SC015221	£26,857
South Lanarkshire Council Educational Trusts	SC028135	£127,427
Total Net Assets		**£1,154,382**

Source: South Lanarkshire Council charities audited annual accounts 2020/21

2. Financial management

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

Main judgements

Financial management is effective. The financial impact of Covid-19 has been reported to members.

The pandemic had a significant impact on the council's 2020/21 budget outturn position. A budget underspend of £77.224 million is reported. £32.390 million of the underspend related to unspent Covid-19 funding.

Costs relating to the Covid-19 pandemic totalled £35.800 million in 2020/21. The council received £68.190 million of direct funding, and administered £77.556 million of agency income, provided by the Scottish Government in 2020/21.

The unspent Covid-19 funding of £32.390 million contributed significantly to the £41.401 million increase in general fund reserves at March 2021. £27.861 million of this unspent funding was received late in the financial year from the Scottish Government.

The pandemic had a significant impact on the council's 2020/21 budget outturn position

49. The council demonstrates sound financial management. There is a well-established budget process and a history of delivering services within budget.

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

51. At the time of setting this budget, no one could predict the lasting impact of the pandemic, with some restrictions still in place well into 2021/22, or the extent of the Scottish Government funding received in response to the pandemic. It is clear both have had an impact on the council's 2020/21 budget, with this reflected in the budget movement across the year.

52. At the March 2021 meeting of the Executive Committee, the probable outturn for 2020/21 was reported as being an underspend of £27.026 million, prior to any transfers to reserves and excluding the Covid-19 shortfall of £1.902 million. Total reserve transfers of £24.863 million were approved. This included transfers relating to the Pupil Equity Fund (£2.450 million) and Early Years 1140 Hours (£3.811 million) funding that required carrying forward into 2021/22 to reflect the spend profile of the funding. This resulted in a projected underspend of £0.261 million after accounting for the Covid-19 shortfall and reserve transfers.

53. In its annual accounts, the council reported an actual underspend of £77.224 million, prior to any transfers to reserves, against its revised revenue budget for 2020/21 of £806.509 million. The budget evolved during the year as additional funding was released by the Scottish Government to meet the costs of responding to Covid-19. The underspend increased from that reported in March 2021 due to new Covid-19 funding allocations totalling £27.861 million being received towards the end of the financial year. In addition to this, Covid-19 had an impact on the council's ability to spend on commitments during the final part of the year. This resulted in a further underspend of £12.942 million on resources. At the year-end, the unspent Covid-19 funding amounted to £32.390 million. This, together with the underspends against resource commitments, was transferred to the council's reserves. The reserves position is discussed further at paragraphs 94 - 97 of this report.

54. These budget revisions, and transfers, resulted in an actual outturn underspend, of £2.595 million. As part of the final outturn review, in June 2021 the Executive Committee approved the transfer of this underspend to reserves. These funds are to be used for specific purposes that includes the replacement of the council's, HR, payroll, purchasing and procurement system. These transfers result in a final breakeven outturn position for 2020/21.

55. The changes in the budget position were reported in revenue budget monitoring reports presented to the Executive Committee throughout the year. These reports contained a good level of detail on the forecast outturn position, as well as details on the costs of Covid-19 and the funding received in support of this.

Resource spend against budget was impacted by Covid-19

56. The council has a history of delivering services within budget, but Covid-19 had an impact on the resource outturn positions in 2020/21. The most significant variances on resource areas are detailed in exhibit 4, with prior year comparators included to highlight the pandemic's impact on the outturn positions against budget for 2020/21.

Exhibit 4

Council resources spend against budget 2018/19 – 2020/21

Council resource	2020/21 over/(under)spend £'million	2020/21 percentage of over/(under)spend compared to budget	2019/20 percentage comparator	2018/19 percentage comparator
Community and Enterprise	£0.723	0.6%	0.5%	(0.7%)
Education	(£9.457)	(2.7%)	(1.4%)	(1.4%)
Finance and Corporate	£1.761	4.8%	0.3%	(0.3%)
Housing and technical	£6.825	43.4%	(2.3%)	1.5%
Social work	(£0.408)	(0.2%)	1.1%	0.7%

Source: South Lanarkshire Council revenue budget outturn reports 2018/09 – 2020/21

Education underspend

57. This is mainly attributed to the timing of spend on multi-year programmes such as Pupil Equity Funding (PEF) and Early Learning and Childcare (ELC). Lockdown restrictions also impacted on the ability of schools to spend PEF funding in the current year. These underspends will be carried into 2021/22 to support the expansion of ELC and expenditure incurred in the school session April to June 2021.

Finance and corporate overspend

58. This net overspend is mainly attributed to additional Covid-19 expenditure. This is primarily due to free school meals provided during the Christmas holidays, January, and February lockdowns and to those children who were self-isolating. This was partially offset by underspends in personnel services, with training and employability programmes delayed due to the pandemic.

Housing and technical overspend

59. The pandemic had a significant impact on the works that could be undertaken and, as a result, impacted on the level of income recovered.

Costs relating to the Covid-19 pandemic totalled £35.800 million in 2020/21

60. The Accounts Commission published its Local Government in Scotland Overview 2021 report in May 2021. The report notes that councils estimated that the total 2020/21 net financial impact of Covid-19 would be £767 million. This included financial pressures totalling £855 million, offset by cost reductions of £88 million from a range of areas such as lower property costs and reduced school meal costs. Loss of income accounted for around £400 million of the forecast financial pressures. Other areas reported to come under increased pressure included the costs associated with delaying capital projects and underachievement of savings. Exhibit 5 highlights the cost of Covid-19 to South Lanarkshire Council in 2020/21.

Exhibit 5
Summary of significant Covid-19 costs

Area	£'million	Further comment
Additional resource spend	£24.820	Includes costs related to education recovery, PPE, and IT equipment. The council was also responsible for making payments to assist families during lockdown, including free school meals and winter clothing payments.
Lost income	£7.299	Lockdown impacted on income generating services such as planning applications and parking.
Unspent budget	(£3.485)	Primarily relates to the reduced need for food purchases, including breakfast and holiday lunch clubs.
Unachieved savings	£0.553	Budget realignments impacted.
South Lanarkshire Leisure and Culture Ltd (SLLC)	£0.139	Cost of covering SLLC lost income.
Capital spend	£6.474	Revenue funding used to cover Covid-19 capital costs.
Total Covid-19 expenditure	**£35.800**	

Source: South Lanarkshire Council 2020/21 annual accounts and Revenue Budget Outturn 2020/21 report

The council received £68.190 million of direct funding, and administered £77.556 million of agency income, provided by the Scottish Government to alleviate the impact of the pandemic on individuals, businesses, and the economy

61. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. South Lanarkshire Council received £68.190 million in Covid-19 related funding in 2020/21. This was used to offset costs noted in exhibit 5. The unspent Covid-19 funding of £32.390 million was transferred to the council's general reserve.

62. Throughout 2020/21 the council has played a key role in supporting individuals and families through the financial burden of the pandemic. This included facilitating support for:

- those self-isolating
- provision of free school meals
- funding for education recovery

63. As part of its 2021/2022 budget, the Scottish Government announced further Covid-19 funding allocations. South Lanarkshire Council's share of this funding has been £25.786 million to date. When combined with the £32.390 million carried forward from 2020/21, this results in £58.176 million being available to help manage further costs from the pandemic.

64. Of this total available Covid-19 funding, £26.101 million is funding for specific areas such as education recovery and support for third sector organisations. This leaves £32.075 million of funding to meet the cost of Covid-19 in 2021/22, reported by the council as being £18.199 million as at period 5 of 2021/22, together with any ongoing costs of the pandemic that continue into 2022/2023.

65. As at period 5 of 2021/22, management have reported to the council's Executive Committee that the net cost of Covid-19 to the council is £7.976 million, with this being met from the above funding (£4.943 million of specific and £3.033 million of non-specific funding).

Throughout the pandemic the council has played a key role in administering grant payments, including making payments on behalf of the Scottish Government to support individuals and businesses

66. In addition to providing support for individuals and families, councils have played a key role is supporting local business as they dealt with the impact of the pandemic. Across Scotland, councils have administered funding of over £1 billion under the various Covid-19 business support fund grant schemes. These grants were administered by councils on behalf of the Scottish Government.

67. South Lanarkshire Council was responsible for administering £77.556 million to local applicants as part of the various business support grant schemes. Access to the available support was well publicised on the council's website. The website contained details on eligibility criteria as well as the enquiries process in relation to the support.

68. Due to the grant conditions these business support funds are considered to represent an agency agreement. Agency payments are those paid out by the council on behalf of another organisation, in this case the Scottish Government. As such, the £77.556 million does not appear in the council's annual accounts, except for being appropriately disclosed in its management commentary.

69. While the provision of additional Scottish Government financial support was essential to alleviate the impact of the pandemic, we recognise that managing the volume and complexity of the various Covid-19 support schemes placed additional pressure on council staff during the year.

70. We reviewed the council's accounting treatment for each of the grants against the applicable guidance. Other than issues 4 and 5 of exhibit 2, we concluded that the council had classified, and where required, correctly accounted for the grants in its 2020/21 annual accounts.

An underspend of £2.569 million was reported against the annual Housing Revenue Account (HRA)

71. The council reported a £2.569 million underspend against the annual HRA budget for 2020/21. The underspend was primarily due to lower than anticipated repairs and maintenance costs which varied throughout the year due to Covid-19. This was partially offset by the under recovery of rental income, with the availability of new build properties delayed due to the pandemic.

72. The £2.569 million underspend was transferred to the Housing Revenue Reserve. In addition to this, there was income received of £0.501 million in council tax from owners of second homes. Taken together, this has increased the reserve from £9.011 million in 2019/20 to £12.784 million in 2020/21.

73. As reported to the Executive Committee in September 2021, as at period 5 of 2021/22, the council is reporting a breakeven position on its HRA.

The pandemic impacted upon the delivery of the 2020/21 capital programme

74. The council approved its 2020/21 general services capital programme of £91.192 million in March 2020 and its housing capital programme of £97.303 million in February 2020. As these budgets were approved prior to the Covid-19 outbreak, they did not factor in the impact that the lockdown restrictions would have on capital works during the year.

75. A subsequent review of both programmes was undertaken by management to compile a more realistic estimate of what projects could be achieved given the Covid-19 restrictions. The revised budgets for the year were £80.648 million for general services and £48.172 million for the housing programme.

76. The final outturn report for the year showed general services capital works of £70.522 million being completed during 2020/21. This represents slippage against the revised budget of 13 per cent but this is largely attributable to the impact of Covid-19 in the early part of the year. This unspent committed funding will carry forward into the 2021/22 financial year.

77. The housing capital programme spent £49.362 million in 2020/21. This was 2.5% greater than the revised budget for the year. The overspend arose due to accelerated spend on the provision of additional housing supply.

78. The Executive Committee approved the 2021/22 capital programmes in June 2021. The general services programme for 2021/2022 totals £85.066 million, with the housing services programme originally amounting to £94.360 million. At the Committee's September 2021 meeting, the housing services budget was subsequently revised down to £79.640 million. This was due to a review of the council's new build housing programme, with proposals approved to move projects totalling £14.720 million into the 2022/23 financial year. These movements reflect revised timescales and estimated completion dates across a number of sites that have been impacted by planning delays.

79. As at period 5 of 2021/22, £16.003 million (19%) of the general services budget has been spent, with £26.065 million (33%) of the housing services budget being spent.

80. The delivery of both programmes of work in 2021/22, together with any Covid-19 impact, will be subject to regular review and scrutiny by the Executive Committee. We will continue to monitor the delivery of the capital programme as part of our 2021/22 audit.

3. Financial sustainability

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

Main judgements

Covid-19 funding increased the council's reserves, but these funds will be required to meet ongoing financial pressures. Recovery from the pandemic is a key element of the council's 2021/22 budget.

Medium and longer-term financial plans are in place but should be updated to reflect the impact of the pandemic. This is the case for all councils.

Recovery from the pandemic is a key element of the council's 2021/22 budget

81. Recovery planning began in many councils early in the pandemic, primarily focusing on recovery and renewal. The priorities that demanded councils' attention before the pandemic have become even more pressing, such as tackling inequalities, improving outcomes for young people, and tackling climate change.

The initial 2021/22 budget gap was £52.741 million

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

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

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

84. A 2021/22 revenue budget update presented to the Executive Committee in February 2021 noted a revised savings gap of £17.530 million. After taking into consideration management and operational savings of £5.762 million and the potential increase in council tax of £6.810 million, this left a savings requirement of £4.958 million. To address this gap, members were presented with savings options amounting to £15.559 million.

The final grant settlement for 2021/22 reduced the savings required and resulted in funds being available for additional investment

85. Following the final 2021/22 grant settlement figures being confirmed by the Scottish Government, the council's position improved by £12.591 million compared to when the budget strategy update was presented to the Executive Committee in February 2021.

86. The council approved its 2021/22 revenue budget of £795.527 million (£751.793 million net of specific grants of £43.734 million) in February 2021. The improvement in the council's financial position allowed further funds to be allocated to its programme of investment to aid with the pandemic recovery. The 2021/22 budget includes investment in areas such as:

- £3 million set aside for "Get South Lanarkshire Council Working" fund to support social enterprises, attract inward investments and develop a new tourism strategy.
- £2.245 million earmarked for the learning and wellbeing of children and young people whose education was impacted by the pandemic.
- £2 million to provide match funding for projects tackling climate change.

87. The council considers such investments to be an important aspect of its role in helping its citizens and local businesses recover from the impact of the pandemic, with the provision of these funds also aligning to its recently published Community Wealth Building Strategy (see paragraphs 124 - 128).

Covid-19 costs to date in 2021/22 are £7.976 million

88. Estimating the cost to the council of the Covid-19 disruption is complex and subject to revision as central government directions and funding decisions are made. The Executive Director of Finance and Corporate Resources reported that, as at August 2021, the estimated net expenditure cost to the council of the Covid-19 disruption was £7.976 million. These costs are covered by funding received in 2020/21, together with further funding allocations received in 2021/22 for Covid-19.

89. As reported to the Executive Committee in September 2021, the council is projecting a revenue budget overspend of £0.454 million. This includes the break-even position on Covid-19 spend as noted above.

Medium and longer-term financial plans are in place but should be updated to reflect the impact of the pandemic

90. In its Local Government in Scotland Overview 2021 report the Accounts Commission recognised that even before the pandemic councils were facing financial and service pressures. There is going to be a range of new challenges facing councils, including decisions on what services to reinstate and to what level. There will also be a need for councils to develop new services and strategies to address the long-term harm caused to communities by the pandemic.

91. Due to the Covid-19 pandemic, the funding position beyond 2021/22 is particularly uncertain, with all councils working to the one-year grant settlement. Planning for the medium term is difficult, but necessary, to manage the levels of uncertainty and volatility facing councils' budgets.

92. At the meeting of the Executive Committee in June 2021, management advised members of a combined savings requirement, after corporate solutions (e.g., use of reserves) and council tax increases, for 2022/23 – 2026/27 of £96.229 million, exhibit 6.

93. Medium and longer-term financial plans will need to be revised by all councils to consider additional financial pressures and updated funding arrangements arising from the pandemic, as well as updated savings requirements and financial assumptions.

Recommendation 3 (appendix 1, action plan)

Exhibit 6
Identified savings required 2022/23 – 2026/27

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Savings required £'million	£9.417	£24.747	£22.396	£27.866	£11.806	**£96.232**

Source: 2022/2023 Revenue Budget Strategy and Savings Requirement report

Covid-19 funding has increased the council's reserves

94. The Financial Management Code from CIPFA applies from 2021/22 and is designed to support good practice in financial management, with compliance against the principles helping local authorities demonstrate financial sustainability. The council undertook a self-assessment against the Code during the shadow implementation year, 2020/21. The governance statement discloses the following actions from this review:

- a detailed financial resilience assessment will be carried out.
- alongside the usual consultation process, key stakeholders will be included in the development of medium and long-term financial plans.
- the council's Options Appraisal guidance and template will be re-issued to encourage its use in demonstrating value for money in decision-making.
- the council's reserves policy does not currently prescribe a minimum level of reserves that should be maintained, a statement on the adequacy of the council's reserves will be included in the 2022/23 budget strategy paper.

95. Prior to the Covid-19 pandemic, in 2019/20 the level of usable reserves had decreased. This year the usable reserves increased by £42.230 million to £145.820 million at 31 March 2021, exhibit 7. Within the general fund reserve, the most significant increase was due to Covid-19 funding of £32.390 million.

Exhibit 7

South Lanarkshire Council usable reserves

Reserve	31 March 2019 £'million	31 March 2020 £'million	31 March 2021 £'million
General fund	£82.785	£75.579	£116.980
Housing revenue account	£9.011	£9.713	£12.784
Repair and renewal fund	£6.929	£5.918	£7.484
Capital fund	£15.905	£10.327	£6.268
Insurance fund	£3.278	£2.053	£2.304
Total usable reserves	**£117.908**	**£103.590**	**£145.820**

Source: South Lanarkshire Council annual accounts

96. The council's general fund reserve includes an unearmarked balance of £33.078 million, with £20.035 million of this being approved for future budget strategies and £13.043 million uncommitted. Against an expenditure budget of £795.527 million for 2021/2022, this unearmarked element represents a 4.16% reserve. Management considers that this level of reserve reflects a suitable cushion to contribute towards any unanticipated pressures. The remainder of the general fund reserve, £83.902 million, is earmarked for specific purposes such as Early Year's, the Pupil Equity Fund, Covid-19 as well as being used to manage the savings requirements across specific future budget years.

97. The Accounts Commission's Local Government in Scotland Overview 2021 report highlighted that the increase in revenue reserves, as a result of Covid-19, would provide some additional flexibility for councils. However, it noted that councils should continue to recognise the ongoing sustainability challenges of using reserves to fund recurring expenditure, particularly as the impact and challenges of Covid-19 continue to develop. In this regard, members will need to take difficult decisions in the future, recognising that reserves can only be spent once.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Effective governance and decision making-arrangements were in place during 2020/21, with appropriate adjustments made to these to reflect the ongoing disruption caused by the pandemic.

Internal controls operated effectively during 2020/21.

The council has in place appropriate arrangements for prevention and detection of fraud and corruption, with work undertaken in the year to counter potential fraud risks from Covid-19.

Effective governance and decision-making arrangements were in place during 2020/21

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

99. As noted at paragraph 39, the council was proactive in revising some of its governance arrangements in response to the pandemic. We commented on council's governance arrangements in our 2019/20 annual audit report and our previous year's conclusion is still relevant, that "the council's arrangements…are appropriate and they support good governance and accountability".

The council conducts its business in an open and transparent manner

100. As we reported in 2019/20, there is evidence from several sources which demonstrate the council's commitment to openness and transparency:

- The agendas, papers and minutes of committee meetings are published on the council's website on a timely basis.

- The council makes its annual accounts available on its website. These include a management commentary which adequately explains the council’s financial performance for the year.

- Its website also provides the public with access to a wide range of corporate information including details of the council’s corporate plan, performance information, and equality and diversity reporting.

101. During 2020/21 the council held committee meetings virtually using Microsoft Teams. The council has made recordings of meetings available on its YouTube page. As of April 2021, livestreaming of these meetings was being offered by the council which helps to maintain public accessibility to council committee business.

102. Overall, we remain of the view that the council conducts its business in an open and transparent manner.

Internal controls operated effectively during 2020/21

103. As part of our 2020/21 audit, we tested key controls operating over the main accounting systems. Our objective was to gain assurance that systems for processing and recording transactions provide a sound basis for the preparation of the annual accounts. Our findings, which were reported to the Risk and Audit Scrutiny Committee in June 2021, included recommendations to enhance the existing control system.

104. Our controls work did not identify any significant risks of material misstatement, with the internal controls providing a sound basis for the preparation of the annual accounts.

Internal audit provided a reasonable level of assurance over the council’s risk management, control, and governance arrangements in place during 2020/21

105. 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.

106. We found the council’s internal audit to be operating effectively, and in line with the Public Sector Internal Audit Standards (PSIAS) requirements.

107. PSIAS require the provision of an annual internal audit opinion, to inform the council's annual governance statement. The Audit and Compliance Manager issued her Annual Assurance Report to the Risk and Audit Scrutiny Committee in June 2021 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 2021.

The council has in place appropriate arrangements for the prevention and detection of fraud and corruption, with work undertaken in 2020/21 to counter potential fraud risks from Covid-19

108. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers.

109. In June 2020 Audit Scotland published a report on Covid-19: Emerging fraud risks. This briefing set out a range of fraud risks emerging from the Covid-19 disruption and what public bodies might do to help reduce these risks. Councils had to quickly establish new processes to administer support funding to business during the pandemic. This, combined with the working from home arrangements for staff, heightened the risk of fraud. Internal audit used this report as the basis for a review of the council's risk management arrangements in 2020/21.

110. The review confirmed the findings of the Audit Scotland report, that inherent fraud risks had heightened, with key financial processes such as procurement and payroll particularly vulnerable. To help mitigate against potential issues, the council provided guidance to employees reminding them of safeguarding duties, for both council assets and data, and good practice steps that should be taken when working remotely. It was also established that the council's IT Security Team continued to monitor emerging cyber threats during the pandemic and, where required, introduced additional controls in response to these threats.

Good practice

Internal audit re-aligned its 2020/21 workplan to take account of emerging risks arising from Covid-19. This included undertaking a review of revised working arrangements together with consideration of the heightened fraud risk created by the pandemic.

111. New processes such as the payment of business support grants were implemented by the council. The council's internal audit function provided assurance over these new expenditure streams through a high-level review of the controls in place. From our own review of the council's controls over its administering of business support grants, we found that these were operating effectively.

112. The council continues to participate in the National Fraud Initiative (NFI). This is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The 2020/21 NFI exercise will include data on Covid-19 grant funding. Internal audit is currently reviewing the higher risk matches, with the council on target to complete this by the deadline of 31 March 2022.

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

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Good progress has been made in addressing the recommendations from the Best Value Assurance Report (March 2019).

The council demonstrates a clear focus on delivering Best Value, with its rate of performance improvement remaining consistent over recent years. The way that some services have been delivered changed to reflect the needs of communities during the pandemic.

Good progress has been made in addressing the recommendations from the Best Value Assurance Report (March 2019). We will continue to monitor the longer-term impact of the improvements made

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

115. The BVAR contained ten improvement recommendations, in areas including how community engagement is used to shape services, the role of the Community Planning Partnership Board and the need for elected members to review their training needs. Our work in 2019/20 concluded that the council had achieved two of these, with progress having been made on the other eight recommendations, albeit this had been impacted by the pandemic.

116. Our work in 2020/21 has established that the council continues to make positive progress in implementing the recommendations from the 2018/19 BVAR, exhibit 8. Best Value is a continuous process. This is recognised by the council, with some of the recommendations being progressed further into longer-term improvements. We will continue to monitor the impact of the improvements made.

Exhibit 8
Progress against BVAR recommendations

BVAR recommendation	Audit Scotland view on progress to date
1. To increase the impact of the council's efforts in achieving its strategic objectives, links between the council plan (Connect Plan) and the LOIP (Community Plan) should be made clearer with a sharper focus on the key areas of activity. Locality plans should be prepared without further delay.	**Well progressed** A refresh of the Connect Plan and Community Plan is currently underway, with the council working with communities to identify what their priorities are for the new plans. An interim review of the current Community Plan was undertaken, with a revised interim plan published prior to the new Community Plan being available in 2022. To date, six neighbourhood plans have been developed. A further four are progressing with the aim of publishing these by March 2022.
2. Management should carry out the staff survey and use the results to drive improvement and share existing good practice.	**Complete** See paragraphs 117 - 123 below for further details of staff surveys carried out in year.
3. Elected members need to improve the public scrutiny of key decisions, performance, and financial reports.	**Ongoing** Management have advised that member engagement and scrutiny has improved through training, with more debate evident. Work is ongoing to provide members of the Risk and Audit Scrutiny Committee with training to assist them in their scrutiny and challenge role. This had previously been delayed due to Covid-19.
4. Members should, with the assistance of the personnel service, review their personal training and development needs and agree a plan to ensure that they have the skills required to effectively fulfil their scrutiny and challenge roles.	**Well progressed** Training has been undertaken by all members. There have been 30 sessions held between January 2020 and March 2021. Training sessions have covered a wide range of areas. This training will support members in effectively carrying out their roles.
5. Management should review arrangements for assessing resident satisfaction, to ensure these are providing meaningful data to help shape future services.	**Well progressed** Engagement has been undertaken with communities throughout South Lanarkshire to identify what the main priorities are for neighbourhoods, as part of the development of the new Connect and Community Plans. Residents answered a short open survey on their priorities, with over 3,100 responses received. These responses will be the basis of the new plans which are being developed and

	will shape the direction of service delivery in South Lanarkshire over the next 5 to 10 years.
6. The Community Planning Partnership Board should take a more active role in driving partnership working, monitoring outcomes, and feeding back to thematic subgroups.	**Well progressed** As highlighted in the prior year, the CPP Board is becoming a more strategic Board, providing oversight of partnership activity. From a review of Board papers, each meeting has a full agenda with regular updates on a wide range of areas reported to members. Development sessions continue to be held, with outcomes of these sessions reported to the CPP Board. Thematic groups are involved in decisions taken by the Board and have been recently involved in the proposed CPP structure and governance arrangements.
7. The council should review existing governance structures to ensure that they support community-based activity.	**Complete** At a special meeting of the council in February 2020, members approved revised Terms of Reference for the council's Area Committees, which set out the powers and responsibilities of the committees. All four area committees are meeting online, and it is evident that the updated terms of reference are being implemented.
8. Management should implement revised arrangements for community engagement to improve how it is used to shape services. Consistent and high-quality consultation across all services should be part of this.	**Well progressed** The Partnership Community Participation and Engagement Group has been established and meets monthly. The group is co-chaired by the Chief Executive of Voluntary Action South Lanarkshire (VASL) and South Lanarkshire Council's Community Engagement Manager. The group has taken a key role in overseeing the promotion of the engagement activity around the new Community Plan. The council published its first Community Wealth Building (CWB) Strategy in March 2021. Further detail is included at paragraphs 124 - 125.

Source: Audit Scotland

The council has consulted with employees throughout the pandemic, with this feedback being used to help shape future service delivery

117. One of the Best Value recommendations referred to the council’s plans to undertake a staff survey, with the results used to drive improvement and share existing good practice.

118. Building on from the survey undertaken by the council in 2019, a working from home staff survey was carried out in June 2020, with a follow-up in December 2020. On both occasions, 87% of those who responded said that they felt working from home was a positive experience. The findings of these surveys were reported to the council’s Corporate Management Team. The council is using the feedback from these surveys to help inform any decisions on its future agile working arrangements.

119. In 2020/21, the Public Sector Improvement Framework (PSIF) developed a number of checklists to capture the learning an innovation that council services had put in place in response to the pandemic, with the hope that these new ways of working are permanently embedded into services for communities.

120. South Lanarkshire Council’s community engagement team agreed to pilot the newly developed checklist at service level, to capture learning from the team’s experience of working with the community during the pandemic. The case study was published on the PSIF website in August 2020.

121. The checklist was issued to all members of the community engagement team for completion. The responses were analysed to identify where staff felt their team's response to Covid-19 has been strong, and areas that could have been improved. This aimed to identify new ways of working that the team could take forward.

122. An online session with the staff from the community engagement team was held to present the checklist findings back to them and with this helping to facilitate group sessions on how the team planned to implement these new ways of working.

123. As a result, a "New Ways of Working" plan was developed, covering areas such as:

- maintaining the benefits of using technology to engage with the community
- maintaining the new networks established in each of the localities for future projects
- maintaining the many volunteers to support future projects and to recognise their contribution during this period
- embed the benefits gained in agile working for staff
- maintain the benefits of joint working between partner organisations around sharing of information and consistent and timely messaging.

Good practice

The council has proactively engaged with its employees around working arrangements during the pandemic and used this feedback to help drive improvement to support staff and the communities they work in.

The development of a Community Wealth Building Strategy aims to create stronger local economies in communities across South Lanarkshire

124. In March 2021, the council published its first Community Wealth Building (CWB) Strategy. The Scottish Government describes CWB as a people-centred approach to local economic development, with the aim of redirecting wealth back into local communities.

125. The strategy aims to build on the council's current work in its local communities by setting out its ambitions across five key areas:

- Spending
- Workforce
- Land and property
- Finance and building
- Generative economy

126. The strategy is aligned to the council's Community Plan. It is hoped the strategy will help contribute to the council's overarching objective to tackle poverty, deprivation and reduce inequalities, all of which have been heightened nationally by the Covid-19 pandemic.

127. In addition to annual reporting on strategy progress indicators, the council has established a CWB commission to advance the strategy and raise awareness of it more widely. The commission is chaired by the Council Leader and includes representation from senior elected members, council services, the Health and Social Care Integration Joint Board and Community Planning Partners.

128. We will monitor the progress and impact of the strategy through consideration of this annual reporting.

Several new services were provided in response to Covid-19

129. There were additional service pressures, including the delivery of new services, faced by all council's during 2020/21 as they responded to the pandemic. As part of the annual performance spotlights 2020/21 report considered by the Performance Review and Scrutiny Forum in August 2021, it was reported that the council provided an array of support during the pandemic, examples include:

- Over 500 children each day over the school holidays attended the childcare support hubs set up for vulnerable children and those of key workers.
- There were over 50,000 calls to/from the council's Covid-19 wellbeing phoneline.
- Over 400,000 meals were distributed directly to individuals and families in the community.

130. The extent of this support cannot be overestimated. 2020/21 was a year like no other in terms of activity and service delivery. As a result of the pandemic, the council was forced to suspend or reduce several services that could not be continued in full due to government advice, including adhering to physical distancing requirements for residents and staff. Going forward, this may make it difficult to make meaningfully comparisons on the council's performance year on year as the resultant changes will have inevitably impacted performance outcomes in certain areas.

Service performance is reported in line with the expectations of the statutory performance indicators (SPIs)

131. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

132. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

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

133. The council's performance against resource measures is reported to the appropriate resource committee and performance against corporate measures is reported to the Performance and Review Scrutiny Forum. Progress reports submitted to the Performance and Review Scrutiny Forum include a summary of performance against measures for each of the council's strategic plan (Connect 2017-22) objectives, along with details of the main achievements for that objective.

134. The Connect quarter four progress report for 2020/21 reports that of the council's 98 performance measures, 76 (78%) had been achieved. Of the remaining measures, one experienced significant issues. This was in relation to the percentage of standard adaptations carried out to council properties within an agreed appointment time. Of all standard adaptations carried out, 92.4% met the agreed appointment times, against a target of 97%. This drop in performance is attributed to households self-isolating during the Covid-19 pandemic, meaning that access could not be granted for the works to be undertaken.

135. Our work in 2020/21 has confirmed that, despite the impact of Covid-19, the council performance reporting arrangements remained in place, with the council's website covering all the requirements set out in the SPI direction issued by the Accounts Commission.

The council's overall performance per national benchmarking declined slightly when compared to prior years

136. The council participates in the Local Government Benchmarking Framework (LGBF). The framework brings together a wide range of information about how all Scottish councils perform in delivering services, including the cost of services and how satisfied citizens are with them. The council says that the use of the LGBF allows it to self-assess its performance across years, and to compare performance with peers against an agreed suite of performance indicators, which will assist in achieving best practice and efficiencies.

137. The most recent National Benchmarking Overview Report 2019/20 by the Improvement Service was submitted to the council's Performance and Review Scrutiny Forum in May 2021 along with a council specific action plan. The council's overall performance declined slightly when compared with the prior years. Details of the council's trend over the past three years against these performance indicators can be seen at exhibit 9.

Exhibit 9

South Lanarkshire Council analysis of LGBF results

	Number of indicators (%) 2017/18	Number of indicators (%) 2018/19	Number of indicators (%) 2019/20
South Lanarkshire Council performance			
Improving performance in SLC	32 (40%)	34 (38%)	35 (38%)
Declining performance in SLC	35 (44%)	34 (38%)	45 (50%)
No change in performance in SLC	2 (2%)	3 (3%)	1 (1%)
Information not available	11 (14%)	18 (21%)	10 (11%)
Comparison with Scottish Average			
SLC results better than Scottish average	39 (49%)	44 (49%)	41 (45%)
SLC results worse than Scottish average	28 (35%)	28 (32%)	40 (44%)
SLC results the same as Scottish average	2 (2%)	3 (3%)	0 (0%)
Information not available	11 (14%)	14 (16%)	10 (11%)

Source: Performance and Review Scrutiny Forum (May 2021) and LGBF 2020/21

138. For 2019/20, there has been an increase in the number of council indictors that are worse that the Scottish average. Many of the reasons identified are specific to the indicator. The council has an improvement action plan for all the indicators, including those reported as being below the national average.

139. The Improvement Service continues to review and develop the suite of indicators. For example, there are five new measures relating to financial sustainability, that consider the level of reserves and borrowing, included in the 2019/20 results. The council showed a declining performance in four of these, with three also being lower than the Scottish average. The nature of these indicators means that the council's high level of planned investment in key budget areas such as schools and roads can have an adverse effect on these ratios. Therefore, these indicators should be considered in the line with the council's local policy decisions.

140. The LGBF data includes indicators that assess residents' satisfaction with local services provided by the council and South Lanarkshire Leisure and Culture. These are based on results from national Scottish Household Surveys

(SHS). The latest LGBF data shows that the council's performance was worse than the national average for four out of the seven satisfaction indicators.

141. Where the council conducts its own local satisfaction surveys, the local results are better than the SHS result. Management notes this is likely due to the local surveys targeting people that have used and experienced the service in question. These local results help demonstrate the council's engagement and communication with residents and local communities. From our review of the council surveys, residents are understanding of the challenges faced by the council and are generally satisfied with how services are being delivered. However, a wider focus, beyond service users, that considers views from other residents who may not currently be using those services should be maintained. This will provide well rounded meaningful data to help shape future services.

142. The council is engaging with the Improvement Service to look at how it uses and reports on the LGBF, with a view to refining the selection of indicators which are used to better reflect the council's priorities and support scrutiny of progress in its identified improvement areas.

The rate of improvement of South Lanarkshire Council's performance has been consistent over recent years.

143. The analysis in exhibit 10 focusses on indicators that have been consistently reported across 2015/16 - 2019/20. It looks at South Lanarkshire Council's relative performance compared to other councils. Relative performance against other councils is divided into four equal quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile contains the poorest-performing councils. This does not indicate that the overall performance of an individual council is improving but can indicate if relative performance is improving or deteriorating as well as the pace of improvement in a council.

144. This analysis is based on 40 (out of a total of 90), mainly outcomes-based, indicators which were reported on every year within the five-year period. The analysis excludes satisfaction and most cost-based indicators, as 'high' or 'low' cannot be as easily determined as 'positive' or 'negative,' as these may be influenced by a council's priorities and local circumstances. Due to comparability issues arising from Covid-19, indicators related to education attainment have also been excluded.

Exhibit 10
Quartile analysis of selected LGBF indicators

Source: Audit Scotland, Local Government Benchmarking Framework, and the Improvement Service

145. The rate of improvement of South Lanarkshire Council's performance has been consistent over recent years but there has been a dip in 2019/20 with an increase in indicators in the bottom two quartiles. However, the comparability of indicators is impacted by Covid-19 in 2019/20 particularly as some education attainment indicators are not included this year. There are a couple of indicators that we feel are of particular note this year.

Pupils entering positive destination has improved from quartile 2 to quartile 1

146. With improvements year-on year, the council has performed consistently well in this area over recent years. As reported in our 2018/19 Best Value Assurance Report, education indicators have been an area where the council has performed well in.

147. The trend of year-on-year improvements in the council's education performance indicators is supported by the findings in the Audit Scotland report on Improving outcomes for young people through school education published in March 2021. This reports an improved position from 2013/14.

148. The pandemic will likely impact on this indicator, with a higher level of negative destinations from young people than in previous years. This is due to a combination of factors, including limited labour market opportunities together with difficulties some young people experience engaging remotely with further and higher education and training. In response to this, the council is working closely with partners including Skills Development Scotland to identify and track young people and make appropriate offers of support. Funding has been secured from the Scottish Government that will help create additional opportunities for young people to engage in work experience and employability focused groupwork activities to progress to and sustain employment.

149. The council recognises the need for continuous improvement in this area and has set a target of 95% of pupils entering positive destinations (94.8% achieved in 2019/20).

The number of Business Gateway start-ups has declined dropping from quartile 3 to quartile 4 but action is being taken to address this

150. The number of Business Gateway start-ups has been consistent over several years but has not increased. A new Business Gateway contract became operational from 1 March 2021 with a new contractor. Management is anticipating that the new contractor will implement a more innovative approach that includes a localised marketing camping to help publicise the services offered by Business Gateway. It is hoped this will lead to an increase in the number of start-ups. The initial targets and performance for the contract are subject to review after six months, this will allow for any amendment to the approach to be made if necessary.

151. An effective Business Getaway contract will play an important role in ensuring the council achieves its objectives set out in the Community Wealth Building Strategy e.g., helping to develop and grow smaller, locally owned enterprise.

The council contributed to a review into South Lanarkshire Leisure and Culture's (SLLC) governance arrangements and structure. The revised arrangements should ensure that SLLC continues to represent best value to the council

152. Local authorities have a statutory responsibility to comply with the Accounts Commission and COSLA Code of Guidance on funding external bodies and following the public pound.

153. South Lanarkshire Leisure and Culture Ltd. (SLLC) is a registered charity set up by the council to deliver leisure and cultural services to the citizens of South Lanarkshire. The council pays a management fee to SLLC for the delivery of these services, with this being £20.055 million in 2020/21. The financial results of SLLC are consolidated on a subsidiary basis within the group statements in council's annual accounts.

154. The council recognises the continued important role SLLC plays in the lives of its citizens. In 2019/20, the council provided financial support of £0.365 million to cover SLLC's in-year loss of income due to Covid-19 restrictions. This support was extended into 2020/21, with the council committing up to £1.269 million. In the end, only £0.139 million of this available funding was needed by SLLC in 2020/21.

155. As reported in the council's BVAR the council identified a need to review the terms of its service level agreement with SLLC to clarify its expectations of how SLLC should prioritise leisure and cultural services. This was prompted by the increasing pressure on budgets and the year-on-year reductions in the funding available to SLLC. These pressures have been further highlighted by the current Covid-19 environment.

156. A review of the leisure and culture provision was undertaken by an independent firm of solicitors, with their findings reported to the council's Executive Committee in June 2021. A number of changes, to be implemented over the coming year, were identified. Principally, these include the modernisation of the current governance arrangements in place between SLLC and the council. A new constitution will be developed, reflecting a modernised governance model. This will involve a review of various service level agreements that exist for the provision of shared services between the council and SLLC, with the aim of strengthening the current partnership as well as helping to generate efficiencies.

157. Effective governance is a key aspect of 'following the public pound.' The council must ensure that that funds and resources provided to arms-length organisations are used for the purpose intended. Effective monitoring is therefore essential. The new modernised governance arrangements should help ensure that SLLC continues to provide Best Value to the council.

Relevant national performance audit reports are considered by the council

158. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published several reports which are of direct interest to the council. These are outlined in appendix 3.

159. During 2020/21 we noted that relevant national reports, including the Local government in Scotland: Overview 2020 report, were taken to the Risk and Audit Scrutiny Committee for consideration. These were accompanied by the completed self-assessment checklists, and other supplementary information explaining how the findings and recommendations relate to the specific circumstances of South Lanarkshire Council. We welcome this positive response to the national reports.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Accounting for non-current assets Our testing of the council's non-current assets identified several issues impacting on the accuracy of the asset register covering areas such as disposals and additions. Changes have been made to the 2020/21 audited accounts to correct these errors. **Risk:** If the asset register is not complete and accurate future accounts could be materially misstated.	Clear year-end communication between Property Services and Corporate Finance is required to ensure accounting records are complete and accurate for the annual accounts. Exhibit 2 – Issue 2	An Asset Valuation Working Group comprising of members of staff from Finance Strategy and Property Services has been established. The group will meet quarterly to review capital transactions, including the capital programmes, acquisitions, disposals, revaluations, and transfers between Resources. This is intended to improve communications between Finance Strategy and Property Services and to review asset transactions before they are processed on Oracle Assets, therefore reducing the likelihood of errors. The group will also carry out a review of assets held for sale prior to the financial year end and consider whether they are held at the appropriate value **Responsible officer** Finance Manager (Strategy) / Property Services (Assets and Estates Services) **Agreed date** 31 March 2022
2. Assets Held for Sale Our testing of assets held for sale identified one asset held for sale since 2018/19 which	Management should implement a robust review process to ensure that any assets held for sale for longer	Action as above **Responsible officer**

Issue/risk	Recommendation	Agreed management action/timing
has not been revalued since 2016/17. We would expect that assets held for sale for longer than one year are considered for revaluation. **Risk**: The values for assets held for sale within the asset register are misstated.	than one year are identified and considered for revaluation to ensure that assets are held at the appropriate value. Exhibit 2 – Issue 3	Finance Manager (Strategy) / Property Services (Assets and Estates Services) **Agreed date** 31 March 2022
3. Revised financial plans to reflect Covid-19 The council's medium and longer-term financial strategy was developed prior to the Covid-19 pandemic. **Risk:** The assumptions made in the council's financial strategy are out of date as they do not consider the financial impact of Covid-19.	The council should review its long-term financial strategy to reflect the impact of Covid-19 on the council's finances going forward, including scenario planning of key financial assumptions. Paragraph 93	As part of the refresh of the budget strategy in June 2021, the medium-term strategy was updated and presented to members. The council will continue to reflect known impact of covid in future strategies going forward and highlight any new risks The budget strategy for 2023/24 would be presented to members during 2023/24 **Responsible officer** Executive Director, Finance and Corporate resources **Agreed date** June 2023

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
PY1. Credit balances Credit balances totalling £0.412 million were included in the year end sundry debtor's balance. Some credit balances appeared to relate	Management should undertake a frequent review and clear out of credit balances, and where appropriate apply the balance	**Complete** The council has made considerable progress in removing the credit balances, with those balances remaining trivial in nature.

Issue/risk	Recommendation	Agreed management action/timing
to a corresponding sundry debtor. **Risk:** Income is not being correctly matched to invoices.	to the relevant outstanding sundry debtors.	
PY2. Asset register – fully depreciated assets Where assets are no longer in use they should be formally scrapped or sold. Assets continuing in use should be revalued and depreciated over the remaining useful economic life. **Risk:** Depreciation charges are not being correctly made to user services.	Where fully depreciated assets are still in use they should be revalued and depreciated over their remaining useful economic life.	**Complete** A review of all assets with a nil book value was carried out in year to identify those still in use. These have been revalued and depreciated over their remaining useful economic life.
PY3. Accounting for non-current assets Over the course of our audit engagement, we have encountered errors in the council's processes for accounting for non-current assets. **Risk:** The asset register is not accurate. Appropriate charges are not being made to user services.	Management should undertake a review of the processes in place for maintenance of the asset register and accounting for non-current assets. The review should also consider what training is needed for both finance staff and relevant staff in resource directorates.	**Ongoing** Our testing of various asset categories did not identify any material misstatement. However, as noted in exhibit 2, several issues were noted from our testing. See also recommendations 1 and 2 above.
PY4. Council tax collection Only expected collection for current and previous financial years are included in the annual collection estimate. No allowance is made for collections for previous years. **Risk:** Inaccurate estimates of council tax collection reduce members' options when considering the setting of the annual budget.	Management should ensure that a reasonable estimate of council tax collection for prior years is included in the preparation of annual budgets.	**Complete** The arrears collection budget was revised down from £3.500 million in 2019/20 to £2.500 million in 2020/21. Management did not consider it would be appropriate to increase this estimate given the anticipated challenges arising from the pandemic. The budget for 2021/22 has been set at £3.200 million.

Issue/risk	Recommendation	Agreed management action/timing
		Our work last year identified that the budgeted council tax income was 3.2% lower than the actual income received. The income was £4.261 million more than had been budgeted for. For 2020/21 the over recovery is lower at £2.876 million (1.15%). The 2020/21 budget assumed a collection rate of 97.125% for 2020/21. Given that not all the 2020/21 debt will be collected in year, it follows that the collection assumption includes debts due from prior periods to make up to the budgeted collection level.
PY5. Arrears of rent and other housing charges These charges amount to some £20.137 million in total. There are a number of individual arrears balances for substantial amounts. Members receive little information on the arrears position. **Risk:** Arrears are not being pursued in accordance with agreed policy and procedures. The collection of high and escalating arrears balances become increasingly unlikely. Members are unaware of the nature and scale of underlying balances.	Management should review the policy and procedures for pursuing arrears to ensure that appropriate and timeous interventions are being made. Management should investigate large arrears balances and ensure that everything is being done to collect amounts due. Members should be provided with sufficient information on arrears at each committee cycle to allow them to exercise appropriate oversight.	**Ongoing** There has been a notable reduction in the highest value arrears, both in in the number of cases and the outstanding charges. However, as noted in our prior year risk, the collection of higher value arrears becomes increasingly unlikely. The primary reason for the reduction in higher value cases in 2020/21 is due to the approved write-off of these rather than the collection of the arrears. There were 60 cases over £0.010 million, totalling £0.779 million, written-off in 2020/21.

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
1. Risk of management override of controls Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	**Results:** Journal adjustments were tested, and no indications of management override of controls were found. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year. We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business. **Conclusion:** Satisfactory
2. Risk of fraud over income Auditing standards assert that fraud over income should be presumed to be a significant risk in any audit. Residual income arises from diverse fees and charges. Taking account of controls in place, the nature of the council's income and the limited scope for the manipulation and extraction of income we	Most council funding is from central government, local taxation and rent receipts received via direct bank payment. These income streams are readily reconciled to underlying documentation and systems. The risk of material misstatement is not significant, and our testing will be limited.	**Results and conclusion:** On completion of our interim audit work for 2020/21 we reconsidered this risk considering the results of our interim audit work and the requirements laid out in auditing standards. As a result, we have now rebutted the presumption that a significant material risk exists from fraud over income recognition. This is based on

Audit risk	Assurance procedure	Results and conclusions
assess that the risk of material misstatement arising from fraud over income is limited.	For other income streams we will test a sample of transactions.	the extent of income which is received from other parts of the public sector, including Scottish Government Funding.
3. Risk of fraud over expenditure Audit Scotland's Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of fraud over expenditure.	Payroll expenditure is well forecast and will be reconciled to the payroll system. For other non-pay expenditure, we will test a sample of transactions.	**Results and conclusion:** On completion of our interim audit work for 2020/21 we reconsidered this risk taking into account the results of our interim audit work and the requirements laid out in auditing standards. As a result, we have now rebutted the presumption that a significant material risk exists from fraud over expenditure. This is based on the extent of expenditure which is issued to other parts of the public sector, including expenditure on the IJBs. For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible.
4. Covid-19 funding and financial flexibilities Councils are receiving additional funding to cover Covid-19 costs. The council is responsible for approving and distributing various grants relating to the Covid-19 disruption from this funding. In addition, councils have been given the option to apply some financial flexibility	Review of any Scottish Government and CIPFA/LASAAC guidance. Discussions with management during the year to consider the accounting treatment. Review of disclosures in annual accounts and ensure that this is consistent with any guidance issued. Review of the controls in place for the payment of	**Results:** Other than issues 4 and 5 of exhibit 2, the council complied with relevant guidance when disclosing and accounting for Covid-19 related funding in its annual accounts. This included correctly distinguish between principal and agency funding. **Conclusion:** Satisfactory

Audit risk	Assurance procedure	Results and conclusions
options to mitigate some of the impact of Covid-19. As yet, no clear guidance has been issued as to how all of these items should be presented in the council's annual accounts. **Risk:** The grant funds are vulnerable to fraud by external parties. Presentation in the annual accounts is not consistent with (expected) guidance.	grants, with emphasis on the business support stream. Review of the work of internal audit on grant payments and possible reliance thereon.	
5. Estimation and judgments There is a significant degree of subjectivity in the measurement and valuation of some material balance sheet assets/liabilities. • Valuations on non-current assets rely on expert valuations and management assumptions. • The value of the council's pension liability is an estimate based on information provided by management and actuarial assumptions. • The council's provision for doubtful debts is based on management assessments of the recoverability of debts. **Risk:** Valuations of assets /liabilities are materially misstated.	Review of the work of the valuer and actuary. Focused substantive testing of classification and valuation of assets. Review appropriateness of actuarial assumptions. Confirm pension valuations in actuarial report are correctly reflected within the 2020/21 accounts. Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience. Review actual experience of significant estimates made in the prior year.	**Results:** Our review of the work of the council's valuation team confirmed the appropriateness of the methodology and assumptions used. We assessed the reliability of the actuary and reviewed their work. No issues were noted. Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. This included verification of pension entries in the audited accounts to the IAS19 report. On completion of our interim audit work for 2020/21 we reconsidered the risk of estimation and judgments relating to the council's provision for doubtful debts. As a result, we have now rebutted the presumption that a significant material risk exists in this area. This is based on there being several provisions covering different account areas (e.g., council tax and housing) that individually are immaterial. All such provisions would have

Audit risk	Assurance procedure	Results and conclusions
		to be misstated for there to be a material error, given the historical lack of issues with these estimates, this is unlikely. **Conclusion:** Satisfactory
6. Accounting for non-current assets Over the course of our audit appointment, we have identified several issues with the council's accounting treatment for non-current assets. **Risk:** The asset register is inaccurate. Assets are materially misstated in the annual accounts.	Detailed testing of non-current asset balances, including testing of additions, disposals, and depreciation to confirm the accuracy of the asset register.	**Results:** We tested asset additions, disposals, and depreciation charges. As noted in exhibit 2, issues 2 and 3, we identified several errors with the council's non-current assets accounting. We undertook additional testing in response to the issues identified. No further issues were noted. See also appendix 1, recommendations 1 and 2. In totality these errors did not breach materiality for the audit. **Conclusion:** Satisfactory

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

Audit risk	Assurance procedure	Results and conclusions
7. Financial sustainability The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the council and its partners. Inevitably there will be additional cost burdens to the council on top of the immediate response to the Covid-19 crisis. Council priorities may need to change. As the council reinstates services, this is likely to require, expenditure beyond that in the budget	Monitor how the council's budget is affected in 2020/21 and the impact on medium/longer-term financial planning. Comment as appropriate in the annual audit report. Monitor the council's performance reports to establish the impact of Covid-19 on services. Monitor the additional funding provided to South Lanarkshire Leisure and	**Results:** The financial outturn and challenges for the medium and longer term are reflected in section 2 and 3 of this report. Service performance is included in section 5. The council provided £0.139 million of financial support to SLLC in 2020/21. **Conclusion:** As with most public sector organisations, the council will need to update its medium to longer-

Audit risk	Assurance procedure	Results and conclusions
and financial plans will need to be revised accordingly.	Culture Ltd (SLLC) to secure its future.	term financial plans to reflect the impact of the pandemic. See appendix 1, recommendation 3.

Appendix 3

Summary of national performance reports 2020/21

April 2020

Affordable housing

June 2020

Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway

July 2020

The National Fraud Initiative in Scotland 2018/19

January 2021

Digital progress in local government

Local government in Scotland: Financial overview 2019/20

February 2021

NHS in Scotland 2020

March 2021

Improving outcomes for young people through school education

May 2021

Local Government in Scotland Overview 2021

South Lanarkshire Council

2020/21 Annual Audit Report

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