

South Lanarkshire Council
Annual Report to Members and
The Controller of Audit

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19 October 2007

Our ref: CDR/JM/JG

Ladies and Gentlemen

**Annual Report to South Lanarkshire Council Members and the Controller of Audit
– External Audit 2006/07**

We have completed our audit of South Lanarkshire Council and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

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1. Executive Commentary

Audit Opinion

- Unqualified Audit Opinion for year ended 31 March 2007 (Section 2).

Financial Performance

- Deficit of £57.267 million on the Income and Expenditure Account. Surplus of £107,000 on the General Fund leading to a General Fund Reserve of £3.833 million carried forward to 2007/08, together with other specific reserves totalling £41.000 million (Section 3).

Audit Process and Accounting issues

- The audit process was effective with financial statements and working papers presented for audit within agreed timescales and an effective working relationship has been established with Council staff.
- More significant audit matters resulting in adjustments to the draft annual accounts relate to :
 - Presentation of bank overdraft of £17.200 million
 - Deferred income shown in creditors for £0.414 million
- Other significant matters which Management have agreed to review and adjust in 2007/08:
 - Valuation of Council Dwellings
 - Treatment of Government Grants Deferred

Governance Arrangements

- Two reports relating to governance and control submitted during the year. Both contained recommendations for improvement and are supported by Management action plans (Section 5 and 6).
- The elections in May 2007 altered significantly the political composition of the Council. This has resulted in the Council reviewing training provided to Members and encountering certain difficulties in appointing members to Arms Length Organisations. Individual member development plans are to be developed during 2007/08 once planned training is completed (Section 7).
- The Council has in place a clear risk management strategy which is supported by a risk implementation plan at Resource level.

Performance Arrangements

- During 2006/07 the Council procured a performance management system which will be rolled out across the Council during 2007/08. This system will now need to be supported by a documented performance management framework and a suite of key performance indicators which link into the overall objectives of the Council. This is an area of development during 2007/08 (Section 8).
- All Statutory Performance Indicators were graded an A (Data appears reliable in material respects) with the exception of Corporate Management indicator 8 – Asset Management due to a lack of available information (Section 9).

1. Introduction

- 1.01 Our overall responsibility as external auditor of South Lanarkshire Council (“the Council”) is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 1.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 1.03 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.04 The Council and the Chief Accountable Officer are, together with other matters, responsible for:
- Making arrangements for the proper administration of the Council’s financial affairs and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
 - Selecting suitable accounting policies and applying them consistently;
 - Making judgements and estimates and that are reasonable and prudent in line with the Code of Practice on Local Authority Accounting in the United Kingdom; and
 - Maintaining proper accounting records.
- 1.05 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements present fairly the financial position of the Council and its group as at 31 March 2007, and its expenditure and income for the year ended; and
 - Whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 1.06 Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: *“Communication of audit matters to those charged with governance”*, we are required to communicate matters arising from the audit of financial statements to those charged with governance. Our reporting to the Risk and Audit Forum throughout 2006/07 and in September 2007, together with this report discharges the requirements of ISA 260.

Acknowledgements

- 1.07 We would like to thank all Council managers and staff involved in the audit for their assistance throughout the audit period.

Financial Statements and Financial Position

2. Independent Auditor's Report

Our Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion.
- 2.02 Our opinion on the accounts states that:
- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 2.03 Our opinion for the year ended 31 March 2007, which is the format prescribed by the Accounts Commission is unqualified.
- 2.04 Our opinion is set out in full in **Appendix 2**.

3. Financial Performance

Financial Statements 2006/07

- 3.01 South Lanarkshire Council is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.
- 3.02 The 2006 Statement of Recommended Practice ("SORP") amended the presentation of the Council's financial statements. The statutory accounts for 2006/07 consist of five main statements and associated notes:
- the Council's Income and Expenditure Account which details the Council's income and expenditure for the year ended 31 March 2007 and replaces the Consolidated Revenue Account;
 - the Statement of the Movement on the General Fund;
 - the Statement of Total Recognised Gains and Losses;
 - the Balance Sheet as at 31 March 2007; and
 - the Cash Flow Statement.
- 3.03 In addition, the financial statements include the following supplementary statements:
- the Housing Revenue Account;
 - the Council Tax Income Statement;
 - the Non-Domestic Rates Income Statement; and
 - the Group accounts and related notes.
- 3.04 The Council reported a deficit of £57.267 million on the Income and Expenditure Account for the year and a surplus for the year on the General Fund of £107,000. This resulted in a General Fund surplus of £3.833 million being carried forward into 2007/08.

Financial Performance in 2006/07

Income and Expenditure (I&E)

	2006/07
	£'000
Gross expenditure	(917,390)
Income	328,493
Net Cost of Services	(588,897)
Other activities including trading operations, interest payable and investment income	(18,842)
Net operating expenditure	(607,739)
Income from taxation and government grants:	
Council tax	(121,277)
General government grants	(316,127)
Non-domestic Rates	(113,068)
Deficit for year on Income and Expenditure Account	(57,267)
Adjust for amounts required by statute and non statutory proper practices	57,374
Increase in general fund balance	107
General fund balance brought forward from 2005/06	3,726
General fund balance carried forward to 2007/08	3,833

- 3.05 The Council initially set a revenue budget for 2006/07 which would allow it to breakeven in year. The Council's actual surplus as at 31 March 2007 was £0.107 million. This in-year surplus has been added to the Council brought forward general fund surplus to give a general fund carry forward of £3.833 million.
- 3.06 The Council achieved this small surplus as a result of in year underspends compared with budgeted expenditure.

Capital Performance 2006/07

- 3.07 The Council's capital expenditure for 2006/07 was £160.41 million in accordance with the Council's capital plan, as follows:

	£million	Purpose
Housing Capital Expenditure	43.59	Invested in the Council's housing stock in line with the Council's housing programme to refurbish all kitchens and bathrooms by 2010.
General Fund Capital Expenditure	115.07	Majority of expenditure spent in re-building and upgrading the Council's primary school estate.
Hamilton Ahead Initiative	1.75	Expenditure in upgrading Hamilton Town Centre.
Total capital expenditure for 2006/07	160.41	

Other Reserves 2006/07

- 3.08 In addition to the cumulative general fund balance of £3.833 million carried forward into 2007/08 the Council also hold funds in a number of other statutory reserves. Funds held in reserve as at 31 March 2007 are:

Reserve/Fund held	£m	Purpose of Reserve/Fund
Capital Fund	12.381	Ring fenced funds for specific capital programmes.
Repairs and Renewals Fund	23.973	Financing expenditure to be incurred in repairing, maintaining, replacing and renewing fixed assets.
Insurance Fund	4.761	Council services contribute to the fund which meets the costs of fire damage, public liability, employer liability, vehicle fleet and various other claims.

- 3.09 Included within the Revenue Budget Strategy 2008-2012, approved by the Executive Committee in March 2007 is the Council's policy in respect of reserves. The Council's General Fund balance is set aside to be utilised for any unforeseen circumstances; this balance is effectively the Council's contingency fund. An inflationary contribution to the general fund on an annual basis is planned, whilst balances held within the Capital, Repairs and Renewals and Insurance Funds are all ring fenced balances held for specific purposes.
- 3.10 Annually the balance on the Repairs and Renewals Fund has increased to an available balance of £23.973 million as at 31 March 2007. Going forward, Council Management should continue to monitor closely the level of funds held in reserve and ensure clear plans are in place to utilise the funds in line with their intended purpose.

Action Point 1

Trading Services 2006/07

- 3.11 The Council operates five Trading Services – Facilities Management, Fleet Services, Grounds Maintenance, Roads and Building Maintenance. During 2006/07 all Trading Services made a surplus, with a total surplus being generated of £6.950 million. 2006/07 was the fourth year that all five Trading Services had been in operation and all five Trading Services achieved the three year breakeven target.

Financial Position and Outlook 2007/08

- 3.12 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.

- 3.13 The Council's budgeted financial position for 2007/08 is summarised below, extracted from the Council's Revenue budget monitoring report (August 2007).

	£m
Forecast service/resource expenditure	743.736
Support Department expenditure	37.015
	780.751
Financing charges, trading accounts surplus, transfers to reserves	41.224
Total forecast expenditure for 2007/08	821.975
Total forecasted income 2007/08	(821.975)
Forecasted (surplus) or deficit	0

- 3.14 This latest forecast breakeven position is as originally planned for 2007/08, with a number of small variations against budget due to timing differences in planned expenditure.
- 3.15 As reported to the Council's Executive Committee on 21 March 2007, within the Revenue Budget Strategy 2008/2012 report, the Council is anticipating a number of financial pressures during 2007/08 and in the medium term. The most significant pressures highlighted by Management are outlined below:
- Local Government Pension Schemes – The Council has forecasted increases in employer contributions on an annual basis to the local government pension schemes. This is forecasted at 15% (£0.800 million per annum).
 - Energy Costs – The Council has experienced increases in the cost of gas and electricity. For 2007/08 this is anticipated to be an increase of 30% compared with prior year costs.
 - Landfill Tax – Landfill tax is anticipated to increase year on year at £3 per tonne per year. Therefore, Management has anticipated the annual cost of landfill tax at £0.600 million.
 - Aggregate External Financing (“AEF”) – This funding stream, made up of Revenue Support Grant, Non-Domestic Rates set nationally and specific Revenue Grants comprise approximately 80% of the Council's income in year. AEF is awarded on a three year settlement basis, with the last three year period being 2005/06 – 2007/08. A comprehensive spending review is scheduled for during 2007. However uncertainty exists regarding the level of AEF awarded and the potential impact on the Council's anticipated income for future years.

Capital Programme 2007/08

- 3.16 During 2004/05 the Council approved a long term capital programme (2004/05 – 2007/08). In February 2007 this was revisited and extended to cover 2007/08 and 2008/09. A key element of the Council's capital programme is the re-building or refurbishing of all the Council's primary schools (124 schools in total). The primary school programme consists of two phases:

Phase 1: Rebuilding twenty four schools and two nursery centres with an estimated cost of £179 million, with work to complete during 2007/08.

Phase 2: Eighty four new build primary schools and sixteen refurbished primary schools. Estimated cost of £672 million. This phase is anticipated to run to 2016/17.

- 3.17 The majority of the above costs will be met by the Council through prudential borrowing. However, in accordance with the Council's strategy, additional loan charges associated with the primary school investment will be met from the Council's approved additional 1% on council tax charges (above the rate of inflation).
- 3.18 The Council's Housing Investment Programme, which will renew the internal and external fabric of the Council's housing stock is a five year programme due to complete during 2009/10. Expenditure for 2007/08 for this programme is estimated at £36.5 million to be funded through capital receipts and the Housing Revenue Account. This includes the Council's approved additional 1% on housing rents above the retail price index ("RPI")

Borrowing to fund 2007/08 Capital Programme

- 3.19 Due to its significant long term capital programme, the Council borrowed additional funds in 2006/07 to take advantage of the competitive market rates available. The Council anticipate utilising fully these funds during 2007/08.

4. The Audit Process and Accounting Issues

Audit Process

- 4.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of an appropriate standard. Overall, we believe that an effective working relationship has been established with your staff.

Preparation of Financial Statements

- 4.02 The draft financial statements were signed by the Executive Director of Finance on 26 June 2007 and submitted to the Controller of Audit by the statutory deadline of 30 June 2007, and co-operation between Management and ourselves has ensured the timely completion of the audit by 28 September 2007.
- 4.03 Our audit of the draft financial statements identified a number of financial, disclosure, format and other issues which have now been adjusted by Management; leading to a final set of financial statements that comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice ("SORP").

Accounting Issues

- 4.04 During the course of our final audit work we identified a number of matters which have been adjusted by management. The more significant of these are as follows:

Bank Overdraft of £17.200 million

- 4.05 Taking into consideration outstanding lodgements and un-presented cheques the Council was overdrawn by £17.200 million as at 31 March 2007. However, within the draft financial statements submitted for audit the Council disclosed a positive cash balance of £0.395 million on the face of the balance sheet. Outstanding cheques and lodgements as at 31 March 2007 were manually journalled into creditors and debtors respectively rather than being accounted for within the year end bank reconciliation, which is the accepted practice. Through discussions with Management it was agreed that the most appropriate disclosure within the financial statements would be to reflect the overdraft of £17.200 million as a liability on the face of the balance sheet, adjusting debtors and creditor balances appropriately.

Deferred Income shown in creditors for £0.414 million

- 4.06 Included within creditors was a balance of £0.414 million relating to specific grant funding. This £0.414 million was originally treated as deferred income; effectively income received during 2006/07 but carried forward for use in future years.
- 4.07 Grant income can be deferred in this manner when it meets two principal criteria:
- The paying agency requires the return of any unspent grants; or
 - The grant awarded in subsequent years will be reduced by the deferred amount.

- 4.08 If these criteria cannot be demonstrated by the Council it is more appropriate to recognise the income received within the Income and Expenditure Account in year as opposed to being carried forward in the balance sheet.
- 4.09 In the case of the grant received for £0.414 million, the Council received a letter from the grant awarding agency stating the Council could spend the income during 2007/08 and this would not be repayable.
- 4.10 Therefore, the final financial statements have been amended to record income of £0.414 million in the Income and Expenditure Account. The £0.414 million was subsequently transferred to the Repairs and Renewals reserve as income received was in respect of replacement of school assets. This transfer to reserves was in accordance with the Council's reserve strategy and funds will be spent during 2007/08.

Further Accounting Issues

- 4.11 During the course of our review we identified the following matters, which we have brought to the attention of management. Due to the timescales and work required by the Council to resolve these matters in an accurate manner, we have agreed that necessary adjustments will be made from 2007/08 onwards.

Valuation of Council Dwellings

- 4.12 The Council own 25,480 Council houses which are currently valued at £559.999 million (net book value as at 31 March 2007) in the balance sheet.
- 4.13 Council houses are valued based on Existing Use Value – Social Housing (EUV - SH) using the Beacon Valuation Method. Using the Beacon principle one Council house property is selected and a detailed inspection and survey is undertaken to calculate its value. This valuation is then extrapolated to all other Council houses making adjustments to reflect, for example, size and location.
- 4.14 The Council's agreed base property is a three bedroom semi detached property in Lanark. The value of this property has been calculated and aggregated across all Council dwellings to obtain a gross valuation. The Council then applies a discount factor to the gross valuation to reflect the Right to Buy ("RTB") discounts to which tenants are entitled. The maximum discount under the RTB (Pre 2002) Scheme is 60% for houses and 70% for flats. The RTB entitlement was reviewed during 2002/03 and as a result post April 2002 the maximum discount that can be received is 35%. At present the Council applies the maximum discount rates e.g. 60% and 70% to the gross valuation to obtain the net book value it is disclosing in its Balance Sheet.
- 4.15 However, from our review of actual council houses sales during 2006/07 it was noted that the average discount given was 51% for houses and 60% for flats. Information obtained on council house sales between 2002/03 and 2005/06 identified the averages over this four year period were 51% for houses and 61% for flats.
- 4.16 By applying a 60% and 70% discount rate to its calculation, the Council is undervaluing Council house properties within the Balance Sheet potentially by around 10%.
- 4.17 Through discussion with Management it was agreed that this treatment would be reviewed and amended during 2007/08 to ensure that Council houses are appropriately valued within the balance sheet.

Action Point 2

Treatment of Government Grants Deferred

- 4.18 During 2006/07 the Council received approximately £30 million in ring fenced government grants, for capital purposes. The SORP states that Government Grants when they are received should be credited to the Government Grants Deferred Account on the balance sheet and then released into the Income and Expenditure Account on an annual basis to match the depreciation charged for the assets which the grant funded.
- 4.19 However, we noted two specific issues in respect of Government Grants Deferred:
- Government Grants received during 2006/07 were not matched to specific individual assets. Therefore, should an asset that is funded from Government Grants be disposed of before the end of its useful life the Council cannot make the necessary government grants amendments on disposal e.g. match the grant with disposal proceeds to calculate a gain or loss; and
 - Government Grants were not being released to the Income and Expenditure Account in the year of receipt, although the assets to which they relate were being depreciated in the year of purchase. This results in a time lag of a year with amortisation and depreciation not being matched. This practice is contrary to the matching principle of accounting for Government Grants (set out in the SORP and Statements of Standard Accounting Practice ("SSAP") 4), whereby the release of the grant should match the period that depreciation is charged on the relevant asset.
- 4.20 The overall impact is that individual Resource Accounts are understating their income, and therefore the deficit shown on the Income and Expenditure Account is overstated. However this has no impact on the general fund surplus carried forward as it is reversed out in the Statement on the Movement on the General Fund so as not to impact on Council Tax payers.
- 4.21 Management stated that it would be difficult to retrospectively match the capital grants received to assets and therefore this cannot be undertaken for the 2006/07 Financial Statements.
- 4.22 Therefore, it is recommended that for 2007/08 Government Grants received are matched to individual assets and grants are amortised in the year of receipt to match the depreciation charged going forward.

Action Point 3

Governance Arrangements

5. Systems of Internal Control

- 5.01 It is part of Management’s overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard the Council’s assets.
- 5.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operational effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls which we plan to rely on during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.

Follow Up Report on previous control matters raised for action

- 5.03 We followed up the Council’s progress in implementing recommendations made by the Council’s previous external auditors (Audit Scotland). Our Follow Up report was submitted to Management in March 2007 and reported to the Risk and Audit Forum in September 2007.
- 5.04 Of the 48 agreed recommendations reported in our follow up report progress was reported as follows:

Status	Total
Fully implemented	13
Action in progress	4
Little action to date	23
Not yet due for Implementation	8
Total	48

- 5.05 Out of the 23 actions where little action had been taken by Management, 19 were in respect of CCTV and the need to appoint a CCTV Co-ordinator. As at September 2007 a Co-ordinator had been appointed and Management has an updated action plan to address these issues. Internal Audit has agreed to monitor progress against these outstanding actions.
- 5.06 Management agreed an action plan to address the outstanding recommendations and we will follow up the progress made against this Action Plan during our 2007/08 audit.

Action Point 4

Financial Systems and our 2006/07 Internal Controls Report

- 5.07 Our Internal Controls Report was presented to the Risk and Audit Forum in September 2007. It summarised the work performed during our interim audit visit, which was focused in the following areas:

Governance

- Overall Governance arrangements including Council and Committee structure

- Review of Internal Audit
- Arrangements established by management for the prevention and detection of fraud and irregularity

Financial Statements

- Financial management in particular Financial Reporting and Budgetary Control Procedures
Review of Key Systems of Financial Control

5.08 The report contained 17 recommendations to improve controls, 3 of which were graded as high risk. These were:

- Management should review the Risk and Audit Forum against CIPFA best practice with a view to enhancing the current arrangements;
- Management should review the reports presented to the Revenue Budget Scrutiny Forum to ensure that reports are clear, understandable and accord with best practice; and
- All bank reconciliations should be signed and dated as reviewed by senior members of staff and prepared on a timely basis.

5.09 The Council has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the agreed action plan during our 2007/08 audit.

Action Point 5

Further Control Matters

5.10 A number of other control matters were identified during the course of our final financial statements audit. These were all of a less significant nature and have been reported in a Final Management Letter to the Executive Director of Finance and IT Resource.

Internal Audit's Report on the Council's Internal Controls

5.11 The extract of the Internal Auditor's opinion for 2006/07 is reproduced below:

"The overall opinion of Internal Audit for the year 2006/07, based on audit work undertaken and other relevant information is that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system".

"Internal Audit's evaluation of the control environment was informed by a number of sources including Internal Audit work undertaken during the year to 31 March 2007, the assessment of risk completed during the audit planning process, reports issued by External Audit and external agencies and knowledge of the Council's governance, risk management and performance monitoring arrangements."

Statement of Internal Control

- 5.12 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given under the relevant code before its publication.
- 5.13 The Council has followed the guidance set out in the 2006 SORP and in the CIPFA Statement of Internal Control for its statement and has outlined the processes designed to identify and evaluate risks.
- 5.14 Key elements of the Council's control framework have been highlighted including the work of the management, internal audit, various external review agencies, and the performance and financial reporting to the Council.
- 5.15 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

6. Prevention and Detection of Fraud and Irregularities

Responsibility with respect to fraudulent and/or illegal acts

- 6.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 6.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements in the financial statements resulting from fraud will be detected. Accordingly, we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected.

Council Policies

- 6.03 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Council's fraud and corruption internal policy and regulations for members and staff conduct. No significant weaknesses were identified through these reviews.
- 6.04 In addition, our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

Fraud Guidance

- 6.05 We have reviewed the guidance issued by Audit Scotland during 2006/07, in particular Technical Bulletins, Notes for Guidance and relevant Urgent Issues Notes, and undertaken work accordingly. There were no matters arising from this work.

Fraud Submission

- 6.06 A return has been made to Audit Scotland of the frauds that have occurred within the Council during the year. Frauds are reported to Audit Scotland in two monetary brackets – greater than £5000 (first tier) and less than £5000 (second tier). During 2006/07 the Council reported one first tier fraud and nine second tier frauds.

National Fraud Initiative

- 6.07 In 2006/07 the Council again took part in the National Fraud Initiative ("NFI") in Scotland. NFI brings together data from Councils, Police and Fire and Rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and Councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005).

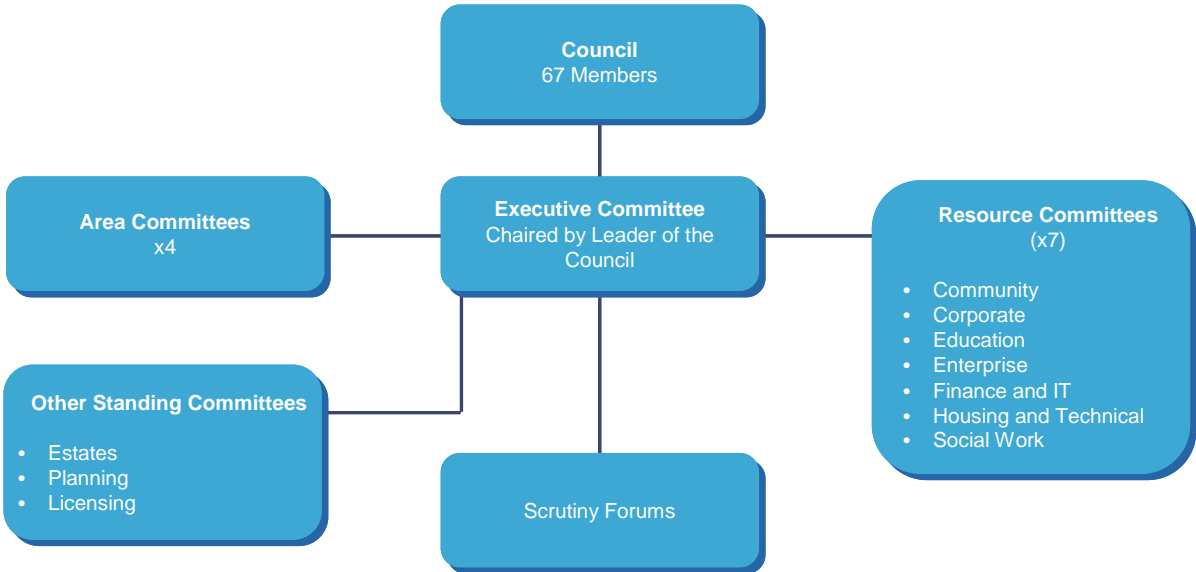
- 6.08 The NFI 2006/07 results (data matches) were made available to audited bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
- 6.09 The Council's NFI exercise is being managed by the Council's Internal Audit Team and Housing and Technical resources. During 2006/07 Management has undertaken work to supply and analyse the data arising from the 2006 NFI exercise.
- 6.10 The 2006 exercise generated 14,000 cases for investigation. As at 31 March 2007, 443 cases had been investigated, with 8% of these cases being highlighted by Management as "concerns" e.g. cases require further action by Management.
- 6.11 The outcome of the 2005 NFI exercise was reported to Members during 2006/07, with the report highlighting overpayments of £557,970 of which £295,657 were found to be fraudulent. In addition, during 2006/07 there were a number of successful prosecutions arising from the NFI exercise.

7. Other Governance Arrangements

Governance Arrangements in place at South Lanarkshire Council

7.01 Our Internal Controls report, presented to the Risk and Audit Forum in September 2007 considered the Council's overall governance arrangements including the Council's Committee structure, Scheme of Delegation, scrutiny arrangements and reporting to Members.

7.02 The Council's broad Governance Structure is set out below:



7.03 This section of our Annual Report outlines the impact on the Council since the elections in May 2007 and in particular outlines the Council's arrangements for and action taken to date in respect of the following key areas of governance:

- Impact of the Local Elections;
- Training for Councillors and individual Councillor development plans; and
- Risk Management Arrangements.

Impact of Local Government Elections

- 7.04 Following the elections held in May 2007 the Council's political membership changed significantly. The political composition of the Council had historically been an overall Labour majority. However, following the elections in May 2007 the Council no longer has a majority party. The table below outlines the differing political composition of the Council.

Political Party	Pre May 2007	Post May 2007
	Number of Elected Members	
Scottish Labour Party	49	30
Scottish National Party	9	24
Scottish Conservatives and Unionists	4	8
Independent	3	3
Liberal Democrats	2	2
Total Number of Councillors	67	67

Governance Structure of the Council

- 7.05 Following the outcome of the elections the Council reviewed its established governance structures; in particular the composition of the various Committees e.g. Executive Committee and individual Resource Committees and the Scrutiny Forums (Revenue Budget, Capital Budget Trading Services and Performance and Audit).
- 7.06 The new Council met for the first time on 23 May 2007. At this meeting the appointments of the Provost, Deputy Provost, Leader of the Council and Deputy Leader of the Council were approved. Also approved were the Chair and the deputy Chairs for each of the Council's Committees.
- 7.07 In addition, at this meeting a revised set of Council Standing Orders, Financial Regulations and Scheme of Delegation was presented and approved. The revised Scheme of Delegation contained minor amendments to the number of meetings to be held during the year for each Resource Committee, Executive Committee and Full Council.
- 7.08 Once individual Committees were agreed, together with each Chair and Deputy Chair, the remainder of the Committees' memberships were put forward by each political party based on an agreed numbers of members per Committee. The final Committee memberships were presented and approved by the Executive Committee in July 2007 allowing for all Committees to meet prior to the summer recess.
- 7.09 In terms of the four scrutiny forums, membership was determined and approved prior to the summer recess although a decision was taken to hold the first meeting of these forums after the summer recess. All four forums met for the first time in September 2007.
- 7.10 Due to the changed political composition of the Council, difficulties have been experienced in appointing Members to Arms Length External Organisations, as previously Council practice was to have only one Member representing the Council on each organisation's Board or Management Committee. To address this, Management has been investigating the possibility of appointing more than one Member to each organisation. This is still an ongoing process for management.

- 7.11 Going forward it is recommended that Council membership of Arms Length Organisations be determined and resolved as soon as possible to ensure appropriate scrutiny is undertaken where the Council funds external organisations.

Action Point 6

Councillors – Role and Training

- 7.12 As part of the pre election planning process, Management recognised that there would be a number of new Councillors, and established in advance of the elections a planned programme of elected member training. Training provided to members is as follows:
- Drop in sessions for both new and returning Councillors were held on 8 and 9 May. These sessions included an introduction to the Council as well as specific areas including Councillors' remuneration and expenses, accommodation, IT induction, declaration of acceptance of office, disclosure checks and support available to Councillors.
 - Awareness raising sessions for Councillors on the Councillors' Code of Conduct (between 14 and 18 May).
 - After the first Council meeting on 23 May 2007 specific training sessions were held in the first fortnight in June. Specific sessions covered were Licensing Board, Local Government finance and an introduction to the Councillors' Case monitoring system.
- 7.13 A further stage of Councillor training sessions and briefings were approved by the Corporate Management Team in August 2007. Particular areas of proposed training include Best Value and Community Planning and individual sessions available for Councillors on certain topics including effective public speaking, managing surgeries and reporting writing.
- 7.14 At the first meeting of the Council on 23 May 2007 the Council approved Councillor post profiles for certain positions in the Council e.g. Provost, Deputy Provost, Leader of the Council, Chairs and core Council members. Profiles outlined the purpose of the post as well as any specific core competencies required.
- 7.15 Development plans have not yet been established for individual Councillors. Management plan to link the development process to planned generic and individual Councillor training sessions in order to ensure development plans link to individual requirements.
- 7.16 Once individual training sessions are held, development plans should be prepared for each Councillor, reflecting individual needs and the core competencies required to fulfil individual roles.

Action Point 7

Risk Management Arrangements

- 7.17 The Council has in place a Risk Management Strategy, which was last reviewed in February 2002. The strategy sets out the Council's proposed approach to risk management, in particular, how risk management is to be structured within the Council including reporting lines and responsibilities, implementation of risk arrangements and how risks will be monitored on an ongoing basis. The Council's Performance Management Group has overall responsibility for monitoring risk management within the Council.
- 7.18 All risks are recorded in the Council's risk profiling database and split into nine categories, which link to the Council's Corporate Strategy.

- 7.19 In February 2007, the Council's Corporate Management Team approved a risk implementation plan, which assigned key tasks and milestones in respect of risk management both in terms of the Central Risk Management team and individual resources. This plan was to ensure that risk management arrangements and principles were being embedded across the Council.
- 7.20 Recent action taken by Management in respect of Risk Management arrangements, as reported to the Corporate Management Team in February 2007, include:
- Cleansing of old data recorded on the Council's risk profiling database has been undertaken to ensure all risks recorded are current;
 - Uploading all resource risk registers onto the risk profiling database;
 - Review of controls in place to mitigate the risks identified; and
 - Regular meetings of resource specific risk management groups to monitor and update the risks identified.

Performance

8. Performance Management Arrangements

Development of a Performance Management System

- 8.01 The Council procured a performance management system in 2006/07. Housing and Technical Services is the first resource to implement the system and is the pilot for the new system prior to it being rolled out across the Council. The new system will allow individual resources to report performance on three main levels:
- Strategic level e.g. Council wide;
 - Operational areas of the Council; and
 - Council plan and individual resource plan level.
- 8.02 The results of the pilot are scheduled to be reported to the Corporate Management Team in October 2007. It is anticipated that this report will highlight the areas of the new system that worked well and the lessons that need to be learnt before the system is operational across the Council. Management plan to establish a cross resource working group in order to project manage the roll out of the new system.
- 8.03 Once the pilot scheme is completed, Management intend devising an appropriate implementation plan in order to co-ordinate the roll out of the system across the Council. Progress in implementing the new system is to be reported to Members in December 2007.
- 8.04 The Corporate Management team has developed a set of Key Performance Indicators (“KPIs”) to assist Management and Members in assessing Council performance. KPIs include the statutory KPIs as well as locally developed indicators applicable to the Council. Currently a half yearly update is provided to Members outlining performance against KPIs and highlighting any areas where performance was less than expected. The last half yearly update was presented to Committee in February 2007. Once the performance system is rolled out across the Council, it is anticipated that the KPIs will be recorded on the system.
- 8.05 Management anticipate the benefits of the new performance system to include:
- Greater performance reporting within the Council, using a traffic light system that is easily accessible and understandable, allowing areas of poorer performance to be highlighted and addressed by Management on a timely basis;
 - Performance data should be able to feed directly into the new system as the performance system is integrated with other Council systems; and
 - Availability of real time data allowing for more timely reporting to Management and the relevant Council Committees and Scrutiny Forums.

Performance Framework

- 8.06 A Council wide plan (the “Council Plan”) has recently been reviewed and updated through consultation with Members, Management and members of the public. This plan will be presented to the Executive Committee in October 2007 for consideration and approval.
- 8.07 Each resource is required to have in place a Resource plan which directly links with the overall Council Plan and Council priorities.
- 8.08 Once the new Council Plan has been approved, management will review the Individual Resource Plans to ensure that these are consistent across each Resource and link to the overall objectives of the Council as outlined in the Council Plan.
- 8.09 Management are in the process of formalising the Council’s performance framework, taking into account the new performance system noted previously. As part of this process management are looking to determine: what information to report, when to report and who should the information be reported to. This will allow for performance reporting to be standardised across the Council.

9. Statutory Performance Indicators

- 9.01 The Local Government Act 1992 places a duty on Councils to ensure they have in place such arrangements for collecting, recording and publishing performance information as are required to comply with a Direction.
- 9.02 The Accounts Commission published “The Publication of Information (Standards of Performance) Direction 2005”) (“the 2005 Direction”) in November 2005, to apply to the financial year 2006/07.
- 9.03 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate. Performance Indicators (“PIs”) have to be graded as either ‘A’, ‘X’, ‘FTR’ or ‘N/S’ as follows:
- A:** The data appears to be reliable in material respects.
 - X:** The lack of available systems, and/or reliable data, and/or decision rules has resulted in the Council producing information which, in the auditor’s view is unreliable.
 - FTR:** The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a ‘Failure to Report’.
- 9.05 All the Council’s Statutory Performance Indicators were graded as A – Data appears to be reliable in material respects, with the exception of Corporate Management indicator 8 – Asset Management, which was a new indicator for 2006/07. This indicator was graded as an X as the Council did not have the available systems for collating the required information in accordance with the Statutory Performance Indicator guidelines.
- 9.06 During 2007/08 Management should review the PI Guidance on Asset Management and collate the appropriate information for inclusion the 2007/08 PI submission.

Action Point 8

10. Other Business Issues

Efficient Government

- 10.01 The Council has in place an efficient government policy for 2007/08 and supporting action plan. The policy statement was approved by the Executive Committee in February 2007 and the action plan is to be monitored by the Corporate Management team and reported to the Executive Committee on a regular basis throughout the year.
- 10.02 As part of the Council's budget setting process, Members have a responsibility to identify with officers efficiency measures to be applied against Council priorities. Each individual Resource as part of the budget setting process is required to forecast and build in cash releasing savings of 2.25% when preparing the Resource budget. Within the 2007/08 approved budget this has resulted in forecast efficiency savings of £10.192 million.
- 10.03 The Council's Efficient Government action plan outlines a number of key actions to be taken by the Council across the five main areas of the initiative. Key actions include:
- Shared Services – Assisting services to develop outline cases for shared services and feasibility studies;
 - Procurement – Review of procurement arrangements and development of e-procurement;
 - Asset Management – Development of a detailed asset management plan;
 - Streamlining bureaucracy – IT enabling of all shared service opportunities and develop future programmes of best value reviews integrated with work of the Continuous Improvement Group.
- 10.04 Council management will monitor the Efficient Government Action Plan and report progress to the Executive Committee throughout 2007/08.
- 10.05 As part of the monitoring process of the effective government initiative, Local Authorities are required to produce and submit efficiency statements to the Scottish Government setting out both time and cash releasing savings achieved.
- 10.06 Savings highlighted by the Council, within the Statement presented and approved by Members on the Executive Committee were:

Savings generated by the Council	£m (*)
Efficiencies achieved to date (1999/00 – 2005/06). Savings achieved has been invested in the Council's revenue budget to deliver key service priorities	62.383
2006/07 Time and Cash releasing savings	10.491
2007/08 Target time and cash releasing savings	10.192

**Savings identified by Management have not been subjected to external audit*

The Council's Asset Management Arrangements

- 10.08 The Council has in place an approved Corporate Asset Management Plan, which covers the entire Council. This plan was approved by the Executive Committee in 2005/06. The Asset Management plan is Resource specific and each individual Resource has in place a detailed action plan. If a Resource requires capital work to be undertaken, a bid process is in place to ensure that the capital work plan is assessed against the Council's Asset Management Plan and Financial Strategy.
- 10.09 The Council currently maintains a fixed asset register which is maintained by the treasury function. In addition to this main register, estates hold a database which records additions and it is this database which is used to inform treasury of additions to record on the fixed asset register.
- 10.10 The fixed asset register is also informed by data recorded on Academy (Housing system for recording Council Dwellings which are excluded from the fixed asset register) and CHSM (which records proceeds from Council house sales).
- 10.11 From our review of the Council's fixed asset register as part of our final audit work we noted that:
- Additions on the estates database are not recorded within the fixed asset register in the same way for example differing asset numbers;
 - Sale proceeds are not recorded on the fixed asset register;
 - Management reporting from the risk register is limited as reports are difficult to obtain and understand;
 - The fixed asset register is not regularly updated by management for example the register had not been updated between March 2007 and September 2007.
- 10.12 Going forward, it is recommended that management review the databases to ensure they are fit for purpose, data is complete, accurate and consistent between databases and sufficient management information can be generated in order to effectively monitor the Council's current assets.

Action Point 9

Appendices

Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
1	Annually the balance on the Repairs and Renewals Fund has increased with an available balance of £23.559 million as at 31 March 2007. Council Management should continue to monitor the level of funds held in reserve and ensure clear plans are in place to utilise the funds in line with the purpose of each reserve.	Medium	All funds within the Repairs and Renewals Reserve are committed to programmes of mainly capital expenditure. The fund has peaked in value and will continue to diminish throughout 2007/08 and 2008/09	Head of Finance	31 October 2007
2	By applying a 60% and 70% discount rate to its calculation of fixed asset valuations, the Council is undervaluing Council house properties within the Balance Sheet. Through discussion with Management it was agreed that this treatment would be reviewed and amended during 2007/08 to ensure that Council houses are appropriately valued within the balance sheet.	High	Agree to review Valuation treatment throughout 2007/08	Head of Estates and Support Services	31 March 2008

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
3	It is recommended that for 2007/08 Government Grants received are matched to individual assets and grants are amortised in the year of receipt to match the depreciation charged, going forward.	Medium	Agreed	Head of Finance	31 March 2008
4/5	Management should ensure the recommendations included within our previous reports are implemented in line with the agreed timescales set out in the Action Plans.	Refer to individual risk categories within specified reports	Already in place. Robust follow up system. Action complete: All audit recommendations in reports copied to the Risk and Audit Manager are monitored through the Figtree IT System. Performance is reported on a quarterly basis to the CMT	Risk and Audit Manager	Complete
6	Going forward it is recommended that Council membership of Arms Length Organisations be determined and resolved as soon as possible to ensure appropriate scrutiny is undertaken where the Council funds external organisations.	Medium	The Council nominates councillors to external organisations in the main at the beginning of a new Council following the elections. In most cases, in terms of the number of places available, we are responding to the needs of the organisation. Often it's been one councillor, but there have been many occasions in the past when it's been more than one. The issue being raised is not wholly unique to this time and is not unduly problematic. At the moment, there are 5 outstanding issues from a list of over a hundred, and those will be resolved shortly. However, all organisations are covered given that the outstanding issue relates to the extra place(s) not the base number. The vast bulk of appointments relate to community organisations which don't rely on the Council for funding.	Head of Administration	31 December 2007

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
7	Once individual training sessions are held, development plans should be prepared for each Councillor, reflecting individual needs and core competencies required to fulfil individual roles	Medium	Within the next week we will be starting the process of offering additional learning and development to councillors. This will lead to individual learning and development plans which will include generic and specific learning and development and, where appropriate, have a link to the core competencies for specific roles. In addition, an induction programme for councillors has already been implemented.	Head of Administration	31 December 2007
8	During 2007/08 Management should review the PI Guidance on Asset Management and collate the appropriate information for inclusion the 2007/08 PI submission	Low	Agree to review. It is our understanding that this PI has caused problems for most councils. If so, this is likely to impact on the PI guidance	Financial Performance Manager	31 March 2008
9	Going forward, it is recommended that Management review the databases in place to record the Council's assets to ensure that the databases are fit for purpose, data is complete, accurate and consistent between databases and sufficient management information can be generated in order to effectively monitor the Council's assets.	Medium	Reports are used to extract data from the Oracle Fixed Asset Register, to allow regular monitoring and reconciliation, and ad hoc reports can be produced from the Oracle system (albeit it is accepted it is not a completely user friendly process to write reports). A review of the Oracle Fixed Asset Register system development is planned for 2008/09 and will look to identify if improvements are required, but this will follow the revaluation reserve developments which are a SORP2007 requirement	Head of Estates	31 March 2008

Appendix 2: Audit Opinion

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

We certify that we have audited the financial statements of South Lanarkshire Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rate Income Account, and the Group Accounts and the related notes, but excluding all other parts of the Annual Report. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Control reflects the authority's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read certain other information published within the Annual Report, and consider whether it is consistent with the audited financial statements, the financial statements being the only part of the Annual Report which we have audited. This other information comprises only the Statement by the Executive Director which is not included by the Council as a Core Financial Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority and its group circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

PricewaterhouseCoopers LLP
Glasgow

28 September 2007

Notes:

- (a) The maintenance and integrity of the South Lanarkshire Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Appendix 3: Other Formal Reports Submitted During the 2006/07 Process

Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

- Outline Audit Plan 2006/07
- Follow up of 2005/06 Outstanding Recommendations
- Internal Controls Report
- PRF Return Submitted to Audit Scotland
- Fraud Return submitted to Audit Scotland
- Statutory Performance Indicators
- Annual Audit Opinion
- Annual Report to Members
- Asset Management Local Study
- Final Management Letter

Appendix 4: Responsibilities of External Audit and the Council and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of South Lanarkshire Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist South Lanarkshire Council regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with South Lanarkshire Council and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to South Lanarkshire Council or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with South Lanarkshire Council. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of South Lanarkshire Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of South Lanarkshire Council to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of South Lanarkshire Council to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that South Lanarkshire Council has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to South Lanarkshire Council during the year as listed at **Appendix 6**.

Materiality

Materiality is defined by the International Accounting Standards Board in the following terms:

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

Management’s Judgments and Accounting Estimates

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

Audit independence

As external auditors of South Lanarkshire Council we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the Members of the Board of South Lanarkshire Council and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. South Lanarkshire Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and South Lanarkshire Council shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, South Lanarkshire Council discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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