

Government and Public Sector Assurance

October 2008

South Lanarkshire Council

Annual Report to Members and the Controller of Audit

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Executive Commentary

Introduction

Our overall responsibility as external auditors of South Lanarkshire Council ("the Council") is to undertake our external audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice ("the Code") revised and published in March 2007.

We would like to thank management and staff for their assistance throughout the audit process.

Independent Auditors Report

Our opinion for the year ended 31 March 2008, which is in the format prescribed by the Accounts Commission is **unqualified**.

The Audit Process and Accounting Issues

The quality of the working papers prepared by management were of a good standard and we believe a good working relationship exists between ourselves and your managers and staff. Overall, an effective audit process was achieved throughout the year.

Throughout the course of our audit a number of financial adjustments, disclosure amendments and typographical corrections were discussed and agreed with management. Following these discussions, management has revised the financial statements to reflect our recommended adjustments.

During the year management discussed a number of potential accounting treatments with us. This approach allowed us to work closely with management in identifying and agreeing potential accounting issues early and minimised the risk of potential audit changes to the financial statements.

Financial Performance 2007/08

As at 31 March 2008, South Lanarkshire Council reported an overall deficit of £82.575 million (£57.267 million in 2006/07) as stated in the Income and Expenditure Account. After adjusting this in-year deficit to reflect the appropriate statutory and non-statutory adjustments (in order to avoid any impact on the setting of Council Tax), the overall in year increase in the general fund was £0.180 million compared with an increase of £0.107 million in 2006/07.

In addition to the cumulative general fund balance of £4.013 million carried forward into 2008/09, the Council also holds funds in a number of other reserves (Repairs and Renewals £20.308 million; Capital Fund £16.077 million; Insurance Fund £5.022 million).

The Council's five trading services have been in operation since 2003/04 (five years), with each service achieving a surplus during 2007/08. Each trading operation has also achieved its statutory performance target of achieving break even over a three year period.

Financial Projection 2008/09

	£m
Estimated Income e.g. Council Tax, Non-Domestic Rates Income and Grant funding	692.242
Budgeted 2008/09 Expenditure	<u>(678.392)</u>
Initial Forecasted Surplus	13.850
Further expenditure redirected to meet Council priorities in year	<u>13.850</u>
Forecast (surplus)/deficit as at 31 March 2009	<u>0</u>

Budgeted expenditure of £678.392 million is based on the rollover of the 2007/08 budget, amended to reflect financial pressures and a 2.25% efficiency saving which each individual Resource is required to identify and achieve during the year.

Governance and Internal Control Arrangements

Given the changed political composition of the Council, it is recommended that Management consult further with Members during 2008/09 and going forward, on the governance arrangements in place, in particular whether the Executive Committee membership and structure of four weekly Executive meetings is appropriate to the Council and its decision making and accountability arrangements.

Going forward, it is recommended that the Risk Management and Audit Forum reviews and scrutinises the financial statements. In addition, to ensure independent challenge the membership of the Forum would need to be reviewed as at present it is not independent of the Finance and IT Resources Committee.

The Council's arrangements for managing risk are set out in an approved risk management strategy that is reviewed on a regular basis by officers. There is a dedicated risk management team based within the Audit and Risk Department of the Council which is responsible for ensuring appropriate staff can use the risk management software, are trained on risk management and that risk registers are reviewed and updated on a regular basis to reflect risks at both the corporate and resource level.

We followed up the Council's progress in implementing our external audit recommendations made during 2006/07 within our Interim Management Letter and Annual Report to Members. Our Follow Up report was submitted to Management in March 2008 and reported to the Risk and Audit Forum in April 2008. Good progress had been made by the Council.

The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control given under the relevant code before its publication. The Council has opted to include the full governance statement which is an optional statement within the SORP. The Council is commended for disclosing its wider governance arrangements and improvement agenda. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

During 2007/08, Audit Scotland working with the Accounts Commission, external auditors and a range of public bodies in Scotland completed another major counter fraud exercise, known as the National Fraud Initiative in Scotland ("NFI"). The Audit Scotland National report commented in respect of South Lanarkshire Council as follows: *"About 10% of bodies employed additional staff or authorised overtime working. However, the most significant additional resources appear to be two temporary staff engaged on housing benefit matches at South Lanarkshire Council. This Council, for its size, has identified among the highest levels of fraud and overpayments through NFI"*.

Going forward, there is a need for a corporate approach to procurement and centralised buying as opportunities for further efficiencies are not being obtained.

Performance Management

The Council has well established community planning arrangements in place and is actively investigating ways in which it can involve more and engage further with all community partners.

The Council has recently introduced a new performance management framework. This framework has introduced revised arrangements for reporting performance, in particular in relation to monitoring and reporting against the measures and targets set out in the four year Council plan. It is anticipated by Council Management that reporting against the SOA measures and targets will be incorporated into the performance management reporting timetable.

In 2006/07 the sickness absence rate for the local government employee group was 4.6% excluding teachers and craft workers. This was the second lowest in Scotland. For 2007/08 the comparable rate of absence is 4.9%.

We are pleased to report that all performance indicators were graded 'A'; the data appears to be reliable in material aspects.

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
Glasgow
G2 2LW

8 October 2008

1. Introduction

- 1.01 Our overall responsibility as external auditors of South Lanarkshire Council (“the Council”) is to undertake our external audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”) revised and published in March 2007.
- 1.02 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 assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value.
- 1.03 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.04 Set out below for information is a summary of our responsibilities as your external auditors and the responsibilities of elected Members and the Council’s Responsible Financial Officer.

Responsibility of elected Members and the Responsible Financial Officer	Responsibilities of External Audit
<ul style="list-style-type: none">• Maintaining proper accounting records.• 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 that are reasonable and prudent in line with the Code of Practice on Local Authority Accounting in the United Kingdom.	<ul style="list-style-type: none">• 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 2008, and its expenditure and income for the year ended.• Issuing an audit report (opinion) on whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Acknowledgements

- 1.05 We would like to thank management and staff for their assistance throughout the audit process.

2. Independent Auditors' 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. Our opinion sets out the responsibilities of the financial officer and the auditor and the basis in which we have formed our opinion.
- 2.02 Our opinion on the accounts states that:
- The financial statements present fairly, in accordance with applicable laws and regulations and the 2007 SORP (Statement of Recommended Practice), the financial position of South Lanarkshire Council and its group as at 31 March 2008 and its income and expenditure for the year the 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 2008, which is in the format prescribed by the Accounts Commission is **unqualified**.

Lanarkshire Valuation Joint Board

- 2.04 Under our Audit Scotland External Audit appointment we are the appointed auditor of the Lanarkshire Valuation Joint Board ("the Board"). We have audited the accounts by the deadline of 31 August 2008 and our opinion for the year ended 31 March 2008 was unqualified. A separate Annual Report has been issued to Management and Members of the Board.

Clyde Valley Learning and Development Joint Committee

- 2.05 The Clyde Valley Learning and Development Partnership Joint Committee (CVLDP) was formed in September 2007, and was set up to provide a shared training facility between the Council and seven other Local Authorities. We have audited the financial statements for the seven month period ended 31 March 2008 and our opinion was unqualified. During the period the CVLDP spent £78,000. Therefore, for 2007/08 this organisation was not included in the group accounts due to its immaterial nature to the Council. As the CVLDP develops and its spend increases, it should be fully grouped within the Council's financial statements.

Action Point 1

Group Accounts

- 2.06 As part of the financial statement process, in accordance with the SORP, the Council has prepared group accounts. Grouped within the Council's accounts are:
- Strathclyde Fire and Rescue Board;
 - Strathclyde Police Joint Board;
 - Strathclyde Passenger Transport Authority;
 - Strathclyde Concessionary Travel Scheme Joint Board;
 - Lanarkshire Joint Valuation Board;
 - Regen FX Youth Trust;
 - South Lanarkshire Leisure Ltd.
- 2.07 Each of these bodies within the Council group are subject to individual external audits and audit opinions. The balances referred in the group accounts reflect the audited balances of each individual organisation.

3. The Audit Process and Accounting Issues

Financial Statements

- 3.01 The financial statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice ("SORP").

Audit Process

- 3.02 The draft financial statements and supporting schedules were made available to us at the start of our audit in line with the agreed timetable.
- 3.03 The quality of the working papers prepared by management were of a good standard and we believe a good working relationship exists between ourselves and your managers and staff. Overall, an effective audit process was achieved throughout the year.

Accounts Approval

- 3.04 The draft financial statements were signed by the Executive Director of Finance on 27 June 2008 and submitted to the Controller of Audit/Account Commission by the statutory deadline of 30 June 2008. Co-operation between management and ourselves has ensured the timely completion of audited financial statements by 30 September 2008.

Audit Adjustments

- 3.05 During the course of our audit a number of financial adjustments, disclosure amendments and typographical corrections were discussed and agreed with management. Following these discussions, management has revised the financial statements to reflect our recommended adjustments.
- 3.06 From our initial review of the draft financial statements submitted to Audit Scotland in June 2008 we noted a number of inaccuracies and typing errors (for example note references were incorrect and certain balances did not add up correctly). These inaccuracies should have been identified through management review prior to being submitted to Audit Scotland. Arrangements have been put in place by management to ensure this matter is addressed in 2008/09.
- 3.07 Under International Auditing Standard ("IAS") 260 – "Communication of audit matters to those charged with Governance" we are required to report all unadjusted errors identified during the course of our audit to members of the Audit Committee (in their governance role). We are pleased to report that all adjustments proposed have been agreed with management and reflected in the financial statements.

Accounting Issues – Treatment of Council house additions

- 3.08 During the course of our review we identified one matter which we have brought to the attention of management in respect of the treatment of Council house additions.

- 3.09 During 2007/08, the Council incurred £34 million of expenditure in relation to the Home Happening Initiative, with a large element of this being used for the purchase and installation of replacement Council house bathrooms and kitchens. The accounting treatment within the financial statements has been to capitalise the expenditure as Council house additions in year. The result of this is that this expenditure is then depreciated over a useful economic life of 40 years. However, a bathroom or kitchen will not last 40 years, so it is more appropriate to create a separate asset class for kitchens and bathrooms, and depreciate these items over a more realistic timescale, for example 10 years. Depreciating over 10 rather than 40 years would increase the depreciation charge to the Housing Revenue Account by around £2.5 million. However, it needs to be recognised that depreciation charges are “reversed out” through the Income and Expenditure Account so as not to impact on the calculation of Council Tax or Council House Rents.
- 3.10 Due to the timescales involved in updating the fixed asset register and the fact there is no impact on council house rents, we have agreed that this revised treatment will be made from 2008/09 onwards.

Action Point 2

Discussion of Accounting Treatments

- 3.11 During the year management discussed a number of potential accounting treatments with us. This approach allowed us to work closely with management in identifying and agreeing potential accounting issues early and minimised the risk of potential audit changes to the financial statements. In particular, discussions took place concerning the revaluation method for Council houses, the treatment of deferred government grants and the calculation of gains/losses when disposing of assets. In addition, the format and timing for the Clyde Valley Learning and Development Joint Committee financial statements were agreed with management in advance of our onsite fieldwork.

4. Financial Performance 2007/08

4.01 As at 31 March 2008, South Lanarkshire Council reported an overall deficit of £82.575 million (£57.267 million in 2006/07) as stated in the Income and Expenditure Account. After adjusting this in-year deficit to reflect the appropriate statutory and non-statutory adjustments (in order to avoid any impact on the setting of Council Tax), the overall in year increase in the general fund was £0.180 million compared with an increase of £0.107 million in 2006/07.

2007/08 Financial Performance Compared with Budget

4.02 The Council's financial position as at 31 March 2008, extracted from the financial statements, is summarised below:

	£m
Extracted from the Income and Expenditure Account:	
Net operating expenditure	661.154
Income received (Council Tax, Government Grants and Non Domestic rates)	<u>(578.579)</u>
Deficit in year	82.575
Statement on the Movement in General Fund Balance	
Net additional amount required by statutory and non-statutory practices to be debited and credited to the General Fund in year (including FR17 pension costs and fixed asset depreciation charges)	<u>(82.755)</u>
Increase in general fund balance 2007/08	(0.180)
General Fund balance brought forward from 2006/07	<u>(3.833)</u>
General Fund Balance carried forward to 2008/09	<u>(4.013)</u>

4.03 At the start of the 2007/08 financial year the Council was forecasting a breakeven position. As at 31 March 2008 the Council achieved a small increase in the general fund of £0.180 million. The principal reasons for this increase were:

- Additional Council Tax income received in year compared with the balance anticipated at the start of the financial year due to improved Council tax collection rates and the collection of certain community charge balances which had been previously fully provided for by the Council; and
- Lower than anticipated loan charges were incurred during 2007/08 due to delays and timing differences within the capital programme. This resulted in less borrowing being undertaken during 2007/08 than initially budgeted.

Capital Expenditure 2007/08

- 4.04 The General Fund capital budget for 2007/08 was £118.884 million. Actual capital expenditure for the year was £108.362 million. This underspend of £10.522 million (8.85%) was primarily due to:
- Delays in commencing work on a number of Community Resources projects, in particular: Carluke Leisure Centre upgrade, Lanark Pool replacement and the upgrade of the East Kilbride integrated facility;
 - Timing of payments for a number of Social Work capital projects due to unforeseen delays in completing the work.
- 4.05 The Housing capital programme budget for 2007/08 was £36.439 million compared with actual expenditure of £35.050 million. This small underspend arose due to certain implementation delays within the Council's Home Improvement Initiative.

Council Reserves

- 4.06 In addition to the cumulative general fund balance of £4.013 million carried forward into 2008/09, the Council also holds funds in a number of other reserves. These are detailed below:

	£m	Purpose of Reserve / Fund
Repairs and Renewals Reserve	20.308	Financing expenditure to be incurred in repairing, maintaining, replacing and renewing Council assets.
Capital Fund	16.077	Ring fenced funds held by the Council for specific individual capital programmes.
Insurance Fund	5.022	Individual Council Resources contribute to the fund which meets the costs of fire damage, public liability, employer liability, vehicle fleet and various other claims.

- 4.07 Set out within the Council's financial strategy is a section in respect of the level of reserves held and future usage of reserves. The capital fund balance of £16.077 million is ring fenced for a number of specific capital projects including the Education Capital Replacement Fund and the costs associated with the Clyde Valley Gateway project. The general fund balance is to be maintained to provide a contingency for any unforeseen financial costs which may impact on the Council.

Trading Operations

- 4.08 The performance of the Trading Operations for 2007/08 is summarised below:

Trading Operation	Turnover £m	Expenditure £m	2007/08 Surplus £m	Actual Three Year Surplus £m
Facilities Management	23.105	(22.886)	0.219	0.424
Fleet Services	19.459	(19.324)	0.135	0.925
Grounds Maintenance	15.902	(15.236)	0.666	1.437
Roads	23.505	(22.142)	1.363	1.990
Buildings Maintenance	66.320	(61.922)	4.398	17.558
	148.291	(141.510)	6.781	22.334

- 4.09 The Council's five trading services have been in operation since 2003/04 (five years), with each service achieving a surplus during 2007/08. Each trading operation has achieved its statutory performance target of achieving break even over a three year period.

5. Financial Projection 2008/09

Projected Financial Position 2008/09

- 5.01 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.
- 5.02 The Council's budgeted financial position for 2008/09 is summarised below, extracted from the report "Overall position of the Revenue Budget 2008/09" reported to the special meeting of the Executive Committee held in January 2008 to approve the budget:

	£m
Estimated Income e.g. Council Tax, Non-Domestic Rates Income and Grant funding	692.242
Budgeted 2008/09 Expenditure	<u>(678.392)</u>
Initial Forecasted Surplus	13.850
Further expenditure redirected to meet Council priorities in year	<u>13.850</u>
Forecast (surplus)/deficit as at 31 March 2009	<u>0</u>

- 5.03 Estimated income for 2008/09 incorporates Finance Circular 6/2007 which set out the Local Government Finance settlement (2008-2011). In addition, additional grant funding income of £3.922 million will be received during 2008/09 to reflect the fact that the Council has maintained Council Tax for 2008/09 at the 2007/08 rate (0% increase in Council tax). This additional funding is non-recurring.
- 5.04 Budgeted expenditure of £678.392 million is based on the rollover of the 2007/08 budget, amended to reflect financial pressures and a 2.25% efficiency saving which each individual Resource is required to identify and achieve during the year. A listing of the proposed efficiency savings, totalling £10.172 million (across all Resources) was presented and approved by the Executive Committee in January 2008.
- 5.05 Once anticipated income and expenditure was determined this resulted in an initial forecast surplus of £13.850 million. However, in line with the Council's financial strategy and the strategic objectives set out in the four year Council Plan ("Connect"), this available income was subsequently allocated to Council priorities [for example, investments in School Roads infrastructure Social Work].

Efficiency Savings 2008/09

- 5.06 In August 2008 the Council completed and approved the Efficiency Statement for 2007/08 which showed that cash and time related savings of £10.3 million for the year had been realised. The Council is currently undertaking a diagnostic review, mainly focussing on staffing with a view to securing further efficiencies. Ten areas for opportunity have been identified, with three of those being prioritised for immediate action.

Financial Strategy 2009 – 2013

5.07 In June 2008, a paper was presented to the Executive Committee updating Members on the Council's medium term financial strategy. This update incorporated financial pressures between 2009 and 2013 and the Council's priorities as outlined in the Council's four year plan – Connect (2007/08 – 2011/12). The strategy considers four key areas of financial management for the Council:

- Expenditure pressures;
- Future Funding;
- Level of Reserves to be maintained; and
- Projections for future funding from the Scottish Government.

Expenditure Pressures

5.08 The Council strategy identified a number of potential financial pressures in relation to expenditure, in particular the rising prices of gas and electricity, which the Council is forecasting will increase by 30% per annum and increases in the rate of landfill tax.

Future Funding

5.09 The Council has continued to assume a Council Tax collection rate of 97% over the next four years. In addition, Management has assumed that if Council Tax increases are to continue to be held at zero a similar additional central allocation of money will be made available by the Scottish Government to those Council's which do not increase Council Tax.

5.10 The Council will adjust Council Tax and/or spending levels should the additional government funding (for zero Council Tax increases) not be on a recurring basis.

Medium to Longer Term Financial projections

5.11 The strategy highlights that the AEF funding settlement is only known up until 2011 and considers a number of scenarios around the impact changes in funding would have on the Council's future financial position and in particular the impact on the Council's plans to improve the roads infrastructure and schools modernisation programme.

Capital Programme 2008/09 – 2010/2011

5.12 The Council has in place an ambitious primary school refurbishment and replacement programme which includes either the replacement or refurbishment of all 124 primary schools between now and 2018. This programme contributes to a significant proportion of the Council's three year capital plan.

5.13 The Executive Committee in February 2007 approved the 2008/09 Capital Programme of £95.723 million. This programme was subsequently amended following the Council's decision to replace more primary schools, as opposed to the planned refurbishment, under the Primary Schools Modernisation Programme. This resulted in the capital programme for 2008/09 being increased by £9.287 million. In addition, slippage from the 2007/08 capital programme is to be incorporated into 2008/09 capital spend. Therefore, the total planned capital spend for 2008/09 is £121.919 million. In February 2008, the Council set its Capital Programme to 2010/11.

5.14 The Capital plan is supported by a detailed listing of capital projects planned for the next three years including how capital projects are to be funded by the Council. Forecast capital expenditure in 2009/10 is £93.350 million and in 2010/11 £104.448 million.

5.15 Going forward, Management should continue to monitor closely actual capital expenditure compared with the agreed capital plan to ensure slippage is identified on a timely basis and appropriate action taken. In particular, delays in the capital plan should be linked directly to the Council's treasury management strategy to ensure that the Council's level, nature and timing of borrowing is appropriate.

Action Point 3

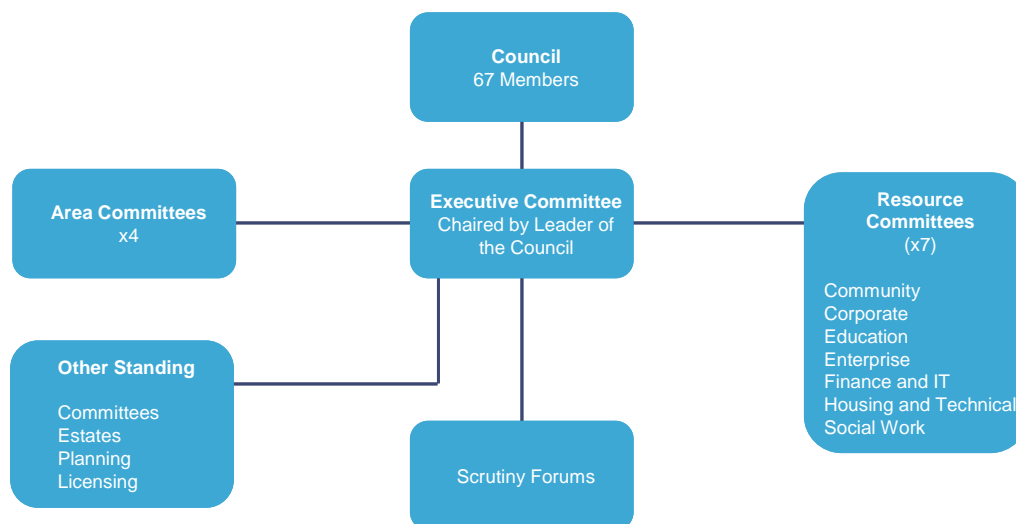
6. Governance and Internal Control Arrangements

Governance and Control

- 6.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that accounting systems provide timely, accurate and reliable financial information and to safeguard the Council's assets.
- 6.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. This includes an understanding of the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We only evaluate and test those internal controls on which we plan to rely 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.

Overall Governance Arrangements

- 6.03 Following the May 2007 elections the political composition of the Elected Members changed. The Council went from an overall Labour majority of 49 Labour members out of 67 to an initial composition of 30 Labour, 24 SNP and the balance of members from other parties. The governance structure of the Council (as set out on the Council website) is shown below:



- 6.04 The full Council meets 4 times per year and as and when required. The Executive Committee which consists of 16 Elected Members meets on a four weekly basis. All Elected Members receive the Executive Committee papers and can submit questions to the Chair in advance of the meeting to be raised on their behalf. Supporting the Executive Committee are individual Resource Committees (7), Area Committees (4), standing committees and scrutiny forums. Scrutiny forums include the Revenue Budget Scrutiny Forum and the Risk Management and Audit Forum (the Council's equivalent of an Audit Committee). Minutes and detailed reports for all the main Committees, not the forums, are available online via the Council's website.

- 6.05 From the perspective of continuous improvement, it is recommended that Management consult with Members during 2008/09 and going forward, on the governance arrangements in place. In particular whether the Executive Committee membership and structure of four weekly Executive meetings and less regular full Council meetings is appropriate to the Council and its decision making and accountability arrangements.

Action Point 4

Risk Management and Audit Forum

- 6.06 The Risk Management and Audit Forum is chaired by the Elected Member who chairs the Finance and IT Resources Committee. Through discussion with Management it was noted that the Risk Management and Audit Forum reports into the Finance and IT Resources and except for one member its membership is made up of Elected Members from the Finance and IT Resources Committee.
- 6.07 Currently, this forum is not responsible for scrutinising the financial statements, as the financial statements are approved by the Executive Committee. However, audit committee recommended best practice states that one of the roles of an audit function is to review and scrutinise the financial statements, in particular the accounting policies and judgements made by management.
- 6.08 Going forward, it is recommended that this role is fulfilled by the Risk Management and Audit Forum. However, in order to fulfil this role, to ensure independent challenge the membership of the forum would need to be reviewed as at present it is not independent of the Finance and IT Resources Committee.

Action Point 5

- 6.09 In addition, minutes and reports from this forum are not made available to members of the public and the Forum is held in private. This does not reflect CIPFA recommended best practice "Audit Committee principles in Local Authorities in Scotland". Management should review recommended best practice and revise its Audit Forum arrangements in particular ensuring minutes are available and meetings are open to members of the public.

Action Point 6

Training for Elected Members

- 6.10 The local government elections in May 2007 led to the establishment of a new full Council and many Elected Members who had not either previously been a Councillor and/or involved in the work of the Council. The Council has sixty seven Elected Members. As at 30 September the vast majority of Elected Members had a role and job description which resulted in agreed personal development plans. 94% of Elected Members attended induction training following the election.
- 6.11 Going forward, management should continue to ensure that Member training needs are identified and addressed and that all Members are actively encouraged to attend sessions.

Action Point 7

Risk Management

- 6.12 The Council's arrangements for managing risk are set out in an approved risk management strategy that is reviewed on a regular basis by officers. There is a dedicated risk management team based within the Audit and Risk Department of the Council which is responsible for ensuring appropriate staff can use the risk management software, are trained on risk management and that risk registers are reviewed and updated on a regular basis to reflect risks at both the corporate and Resource level.
- 6.13 The Council uses a dedicated electronic risk management software tool, 'Fig Tree', which allows risk registers to be viewed and updated electronically, risks to be scored in accordance with the Council's risk scoring matrix for impact and likelihood, and the inclusion of mitigating controls and identified actions.
- 6.14 Risks with the highest scores (high impact/high likelihood) are reflected in the corporate risk register. The corporate risk register is presented to the Corporate Management Team on an annual basis.

Follow Up Report on previous control matters raised for action

- 6.15 We followed up the Council's progress in implementing our external audit recommendations made during 2006/07 within our Interim Management Letter and Annual Report to Members. Our Follow Up report was submitted to Management in March 2008 and reported to the Risk and Audit Forum in April 2008.
- 6.16 Of the 45 agreed recommendations reported in our follow up report, good progress had been made, as follows:

Status	Total
Fully implemented	30
Action in progress	2
Little action to date	-
Not yet due for Implementation	13
Total	45

- 6.17 The two actions currently in progress at the time of our review were in respect of closed circuit television ("CCTV"). It was agreed that these actions would be built into internal audit's future follow up work programme to ensure implementation by management.

Financial Systems and our 2007/08 Internal Controls Report

- 6.18 Our Internal Controls Report was finalised in April 2008. The report contained 17 recommendations to improve controls, one of which was graded as critical risk and three of which were graded high. These recommendations were in relation to the introduction of a new cash receipting system and the difficulties experienced in producing full bank reconciliations and the subsequent impact this had on the reconciliations between the housing rent system and general ledger.
- 6.19 These recommendations have now been addressed by Management and a full bank reconciliation was undertaken as at 31 March 2008.
- 6.20 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 2008/09 audit.

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

- 6.21 Internal audit's annual report was presented and approved by the Risk Management and Audit Forum on 18 June 2008. During 2007/08 internal audit delivered 2,280 days of internal audit input and delivered the planned internal audit programme for 2007/08 by 31 March 2008. The Internal Audit Annual Opinion reported to Members, stated:

"The overall opinion of Internal Audit for the year 2007/08, based on the 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 but that there should be a greater focus on embedding some aspects of good governance".

Statement of Governance and Internal Control

- 6.22 The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control given under the relevant code before its publication.
- 6.23 The Council has followed the guidance set out in the 2007 SORP and in the CIPFA – Delivering good governance in Local Government Framework (May 2005). Key elements of the Council's control framework have been highlighted including the work of Management, Internal Audit, various external review agencies, and the performance and financial reporting to the Council.
- 6.24 The Council has opted to include the full governance statement which is an optional statement within the SORP. The Council is commended for disclosing its wider governance arrangements and the Council's improvement agenda.
- 6.25 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Prevention and Detection of Fraud and Corruption

- 6.26 Our approach has been determined through consideration of the incentives, pressures, opportunities, attitudes and any indicators of fraud. We have reviewed certain elements of the Council's fraud and corruption arrangements through discussion of key risks with senior management as well as reviewing associated controls and selected documentation.
- 6.27 Our enquiries of management and our testing of financial records 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.
- 6.28 We have reviewed the guidance issued by Audit Scotland during 2007/08, in particular Technical Bulletins and Notes for Guidance and relevant Urgent Issues Notes, and undertaken work accordingly. There were no additional matters arising from this work that we are required to report.
- 6.29 On an annual basis we are required to submit to Audit Scotland an annual fraud return outlining first tier frauds (greater than £5,000) and second tier (less than £5,000) that were incurred during 2007/08. Eleven second tier frauds were reported to Audit Scotland and four first tier frauds, which were in respect of housing benefit.

National Fraud Initiative

- 6.30 During 2007/08, Audit Scotland working with the Audit Commission, external auditors and a range of public bodies in Scotland completed another major counter fraud exercise, known as the National Fraud Initiative in Scotland ("NFI").
- 6.31 This initiative is undertaken every two years as part of the statutory audits of public bodies. The Council participated in the 2006/07 exercise, which completed during 2007/08.
- 6.32 NFI uses computerised data matching to compare a range of information held on public bodies' systems for example public sector pay and pensions, government register of deceased persons and housing benefits, to identify inconsistencies or other circumstances which may indicate fraud or error. Matches identified are subsequently provided to the public sector body for further investigation.
- 6.33 In order to participate in the 2006/07 NFI exercise, the Council employed two temporary members of staff to assist in the investigation of housing benefit data. As reported in our Interim Management Letter in March 2008, the Council actively investigated all potential matches identified.
- 6.34 Internal Audit presented a 2007/08 NFI year end progress report to the Risk Management and Audit Forum in June 2008. This report outlined that of the 28,809 records matched for the Council, 25,748 records had been processed by 31 March 2008. A total of 478 benefit overpayments were identified (£311,901) and duplicate creditor payments of £1,198. A total of ten frauds were identified and reported.

- 6.35 A joint report was published by the Auditor General for Scotland and the Accounts Commission in May 2008 on the NFI 2006/07. The report highlighted that to date fraud and overpayments of £9.7 million had been found within the public sector as a result of the 2006/07 exercise and that this amount is expected to continue to increase.
- 6.36 The Audit Scotland National report commented in respect of South Lanarkshire Council:
- “About 10% of bodies employed additional staff or authorised overtime working. However, the most significant additional resources appear to be two temporary staff engaged on housing benefit matches at South Lanarkshire Council. This Council, for its size, has identified among the highest levels of fraud and overpayments through NFI”.*
- 6.37 Audit Scotland will continue to work with the Audit Commission on NFI and the 2008/09 exercise is planned to commence in October 2008. In our role as external auditors we will continue to review progress in respect of NFI. In advance of the 2008/09 NFI exercise, the Council is considering the actions highlighted in the letter issued to all NFI participants by Audit Scotland dated April 2008. In particular concerning a review of the NFI approach, consideration of the risk based datasets and areas where there is greatest risk of fraud or overpayment.

Procurement

- 6.38 The McClelland Review of Public Sector Procurement was published in Spring 2006. A key finding of the review was that there is an opportunity to realise financial savings across the entire public sector in excess of £400 million in 2008/09 and £600m in 2009/10 through increased collaborative procurement, but that the public sector framework, people and technology were not at that point in place to deliver these savings. The McClelland Review resulted in 82 recommendations for public sector organisations to adopt with regard to achieving procurement savings.
- 6.39 Following approval of a bid endorsed by COSLA and SOLACE to the National Shared Services Board, start-up funding of £4.5 million was awarded to establish Scotland Excel as the Centre of Procurement Expertise for Local Government. Scotland Excel is intended to support and complement the existing procurement activities within South Lanarkshire Council. Scotland Excel has been established and commenced operating on 1 April 2008.
- 6.40 The Council set up a strategic procurement team within the Finance and IT Resources in 2005. The team was tasked with developing a strategic approach to procurement and to identify cash and efficiency savings by setting up council wide contracts. In 2006 the council agreed a comprehensive procurement strategy and procurement guidelines.
- 6.41 Progress has been very limited. However, there is a central contracts register, but this is not kept up to date and does not record all council contracts. Individual Resources continue to procure goods and services at a local level and as a result efficiencies and economies of scale are not being realised.
- 6.42 The Council is participating in the Scotland Excel project and is in the process of introducing e-procurement. E-procurement is planned to be implemented first within the Finance and IT Resource before being rolled out across the Council within the next three years.
- 6.43 Going forward, there is a need for a corporate approach to procurement and centralised buying as all opportunities for further efficiencies are not being obtained on a timely basis.

Action Point 8

7. Performance Management

Performance Management

- 7.01 It is the responsibility of the Council to put in place proper arrangements to manage its performance to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on aspects of the overall arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- 7.02 We reported our findings in relation to the following headings in April 2008 within our Interim Management Letter:
- Community planning and partnership working
 - Performance management
 - Workforce management

Local Authority Accounts (Scotland) Advisory Committee Guidance note for the Accounting for the Common Good Fund

- 7.03 Common Good assets have traditionally not been accounted for in the same manner as Council owned assets for example inclusion on a fixed asset register. In recognition of the need to improve controls, a three year transitional plan was put in place by Local Authority Accounts (Scotland) Advisory Committee ("LAASAC") to ensure that Common Good assets would be accounted for in the same way as Council assets on the fixed asset register. It is expected that all local authorities in Scotland will be in a position to start accounting for their Common Good assets on a fixed asset register from 31 March 2009.
- 7.04 South Lanarkshire Council has not had to undertake any additional work to meet these requirements as it voluntarily undertook an exercise a number of years ago to identify all Common Good assets and included them on the fixed asset register. Going forward, these assets are now subject to a five year rolling revaluation in the same way as Council owned assets. The Common Good assets have been recorded on the fixed asset register with a unique code in order to make them identifiable so that they can be disclosed separately from the Council's fixed assets in the financial statements.

Community Planning and Partnership Working

- 7.05 Community planning became a statutory process in April 2003 following the implementation of the Local Government in Scotland Act 2003.
- 7.06 The Council are the lead partner in most areas of community planning and facilitate a large number of meetings and provide administrative support.
- 7.07 The Council has well established community planning arrangements in place and is investigating ways in which it can involve more and engage further with all community partners. Community planning is covered in greater detail within the Audit Scotland Best Value Report.

Performance Management - Single Outcome Agreement

- 7.08 During 2007/08 the Council produced a new Council Plan – “Connect” which is a four year plan and sets out the overall strategic objectives of the Council across a number of key priorities. The new Council plan priorities and measurements built into this plan were used as the basis for the SOA. Corporate Services were allocated the task of producing the SOA in consultation with Council Officers.
- 7.09 The Council's community planning partners were involved in the SOA, only to the extent that they input to the Council's SOA targets for example Health Improvement and Community Safety. During 2008/09 the Council will review the Community Plan and at this stage Community planning partners will be consulted further and steps taken to link the Community Plan into the Council's updated SOA.
- 7.10 The Council has recently introduced a new performance management framework. This framework has introduced revised arrangements for reporting performance, in particular in relation to monitoring and reporting against the measures and targets set out in the four year Council plan. It is anticipated by Council Management that reporting against the SOA measures and targets will be incorporated into the performance management reporting timetable.
- 7.11 The targets and measures set out in the SOA will be measured in line with the Council's performance management framework. It is planned that progress will be reported to the Executive Committee half yearly, supported by quarterly reporting of progress against measures and targets at Resource level.
- 7.12 These new arrangements are good and will take time to embed fully. As this is the Council's primary performance reporting medium, consideration should also be given to more regular reporting, not only to the Executive Committee but to full Council.

Action Point 9

Workforce Management

- 7.13 The Human Resources Department is currently operating in a highly challenging environment with a number of key issues being addressed which have an organisation-wide impact. These are as follows -
- Equal Pay Claims
 - Workforce Management
 - Managing the Council's absence levels

Single Status and Equal Pay Claims

- 7.14 The Council implemented Single Status in 2003, meeting the deadline which had been set nationally. It no longer has any outstanding internal appeals relating to employee grading. However, there are around 1500 equal pay claims against the Council which have been submitted to the Employment Tribunal. It's anticipated that these claims will not reach a final resolution for a number of years.

Workforce Management

- 7.15 The Council has established a Performance Development Review (PDR) process for all employees. Key work objectives are agreed annually between the manager/supervisor and employee, and an assessment is made against the core and job specific competences, and any specific learning and development needs identified. The PDR meeting provides an opportunity for feedback to the employee on performance and career development. This is designed to ensure that learning and development opportunities focus on developing employees to meet the ongoing service needs. Regular Reports on PDR coverage are produced for the Corporate Management Team.

- 7.16 In addition the Council has in place a detailed set of Human Resource policies. The development of a workforce strategy, called People Connect, is underway (approved July 2008), which aims to bring together the set of HR policies already in place and should provide a longer term strategy for the Council's workforce.

Absence Management

- 7.17 The Council has a Maximising Attendance policy in place to managing absence. The policy details the Council's preventative absence management measures such as providing all employees with a safe working environment and treating them in a responsible and caring manner. It also details the policy for recognising employees and departments, which record high levels of attendance, through sending individuals a letter recognising attendance. The levels of absence are monitored and reported across the organisation, both to elected Members and to the Corporate Management Team.
- 7.18 In 2006/2007 the sickness absence rate for the local government employee group, which excludes teachers and craft operatives, was 4.6%. This was the second lowest in Scotland. The rate for teachers was 3.5% and for craft operatives 6.1%. For 2007/2008 the figures are 4.9% for local government employees, 3.5% for teachers, and 6.1% for craft operatives. Employee turnover has been below 5% for the previous 3 years. This compares to a Scottish average of 7.8%.

Best Value

- 7.19 During 2007/08, the Council was subject to a Best Value Audit by Audit Scotland. This audit commenced in April 2008 and is due to be reported by the Accounts Commission later in 2008/09. The improvements identified within the review will be collated into an action plan. It is intended that the final report will be presented to the Executive Committee and circulated to all members.

Performance Indicators

- 7.20 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 required to comply with the Direction. The Accounts Commission published "The Publication of Information (Standards of Performance) Direction 2006" ("the 2006 Direction") in November 2006, to apply to the financial year 2007/08.
- 7.21 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate. There are 57 performance indicators (PI's) in total, all of which have to be graded as either 'A', 'X', 'FTR', or 'N/S' as follows:
- A:** The data appears to be reliable in material aspects.
 - 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 'Failure to Report'.

- 7.22 We have a duty to "be satisfied that the Council has made such arrangements for collecting, recording and publishing performance data as required to ensure that, as far as is practicable".

- 7.23 We are pleased to report that all performance indicators were graded 'A'; the data appears to be reliable in material aspects.

Appendix 1: Action Plan

Recommendation No.	Recommendation	Management Response
1 (Section 2, paragraph 2.05)	The Clyde Valley Learning and Development Partnership Joint Committee (CVLDP) was formed in September 2007, and was set up to provide a shared training facility between the Council and seven other Local Authorities. We have audited the financial statements for the seven month period ended 31 March 2008 and our opinion was unqualified. During the period the CVLDP spent £78,000. Therefore, for 2007/08 this organisation was not included in the group accounts due to its immaterial nature to the Council. As the CVLDP develops and its spend increases, it should be fully grouped within the Council's financial statements.	<p>Responsible Manager: Head of Finance</p> <p>Implementation Date: 31 March 2009</p>
2 (Section 3, paragraph 3.10)	The revised treatment for depreciating Council house improvements (such as kitchens and bathrooms) over a shorter timescale (10 years rather than 40 years) will be implemented from 2008/09.	<p>Responsible Manager: Head of Finance</p> <p>Implementation Date: 31 March 2009</p>
3 (Section 5, paragraph 5.15)	Going forward, Management should continue to monitor closely actual capital expenditure compared with the agreed capital plan to ensure slippage is identified on a timely basis and appropriate action taken. In particular, delays in the capital plan should be linked directly to the Council's treasury management strategy to ensure that the Council's level, nature and timing of borrowing is appropriate.	<p>Responsible Manager: Head of Finance</p> <p>Implementation Date: 31 March 2009</p>
4 (Section 6, paragraph 6.05)	From the perspective of continuous improvement, it is recommended that Management consult with Members during 2008/09 and going forward, on the governance arrangements in place. In particular whether the Executive Committee membership and structure of four weekly Executive meetings and less regular full Council meetings is appropriate to the Council and its decision making and accountability arrangements.	<p>Responsible Manager: Head of Administration</p> <p>Implementation Date: 31 March 2009</p>

Recommendation No.	Recommendation	Management Response
5 (Section 6, paragraph 6.08)	Going forward, it is recommended that the Risk Management and Audit Forum review and scrutinise the financial statements. However, in order to fulfil this role, to ensure independent challenge the membership of the forum would need to be reviewed as at present it is not independent of the Finance and IT Resources Committee.	<p>Responsible Manager: Head of Administration</p> <p>Implementation Date: 31 March 2009</p>
6 (Section 6, paragraph 6.09)	Minutes and reports from the Risk Management and Audit Forum are not made available to members of the public and the Forum is held in private. This does not reflect CIPFA recommended best practice "Audit Committee principles in Local Authorities in Scotland". Management should review recommended best practice and revise its Audit Forum arrangements in particular ensuring minutes are available and meetings are open to members of the public.	<p>Responsible Manager: Head of Administration</p> <p>Implementation Date: 31 March 2009</p>
7 (Section 6, paragraph 6.11)	Management should continue to ensure that Member training needs are identified and addressed and that all Members are actively encouraged to attend sessions.	<p>Responsible Manager: Head of Administration</p> <p>Implementation Date: 31 March 2009</p>
8 (Section 6, paragraph 6.43)	There is a need for a corporate approach to procurement and centralised buying as opportunities for further efficiencies are not being obtained.	<p>Responsible Manager: Head of Finance</p> <p>Implementation Date: 31 March 2009</p>
9 (Section 7, paragraph 7.12)	The Council's new performance management arrangements are good and will take time to embed fully. As this is the Council's primary performance reporting medium, consideration should also be given to more regular reporting, not only to the Executive Committee but to full Council.	<p>Responsible Manager: Head of Administration</p> <p>Implementation Date: 30 December 2009</p>

Appendix 2: Communication to Management

International Auditing Standard (“IAS”) (UK&1) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with Governance.

Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within IAS 260 together with reference to the relevant communication with you during 2007/08 or comments as appropriate.

Communication Required under IAS 260	Reference/Comment
Engagement letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment.
Independence	Audit planning document reported to the risk management and audit forum 14 November 2007. No member of the audit team has any direct interest, financial or otherwise in South Lanarkshire Council.
Audit Approach and Scope	Audit planning document – reported to Risk Management and Audit Forum 14 November 2007.
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Members and the Controller of Audit.
Potential Effects of Material Risks and Exposures	Audit planning document – reported to Risk Management and Audit Forum 14 November 2007.
Audit Adjustments	Section 3 of our Annual Report to Members and the Controller of Audit.
Material Uncertainties relating to Going Concern	Section 3 of our Annual Report to Members and the Controller of Audit.
Disagreement with Management about Matters that could be Signification to the Financial Statements	None Identified.
Expected Modifications to the Auditors Report	No modifications.
Letter of Representation	Signed by management 30 September 2008.
Material Weaknesses in Internal Control	None identified. Internal Control findings reported in our Interim Management Letter reported to Risk Management and Audit Forum 23 April 2008.

Communication Required under IAS 260	Reference/Comment
Fraud	Discussed fraud arrangements with management throughout the audit. Annual fraud return submitted to Audit Scotland.
Laws and Regulations	We have not identified any material breaches of laws and regulations which would impact on the 2007/08 financial statements.
Audit Materiality	Audit planning document – reported to the Risk Management and Audit Forum 14 November 2007.
Fair Value Measurement and Disclosure	Included in representation letter. Signed by management 30 September 2008.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Formal Reporting to Management during 2007/08

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2007/08 are summarised below:

Formal Output	Date
Audit Plan	14 November 2007
Detailed Timetable for 2007/08 Financial Audit	14 February 2008
Interim Management Letter	23 April 2008
Audit Opinion	30 September 2008
Annual Report to Members and the Controller of Audit	8 October 2008

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the South Lanarkshire Council (“the Council”) and the Controller of Audit. 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. The Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Council shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, the 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. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

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