

Government and Public Sector Assurance

28 October 2009

South Lanarkshire Council
Annual Report to Members and the Controller of
Audit for the year ended 31 March 2009

Contents

Section	Page
1. Introduction.....	1
2. Executive Commentary	2
3. Audit Opinion and Accounting Issues.....	4
4. Financial Management and Performance 2008/09	7
5. Financial Forecasts for 2009/10 and Onwards	10
6. Governance and Systems of Internal Control	13
7. Best Value and Performance	16
Appendix A – Action Plan.....	19
Appendix B – Communications to Management	21

The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement. Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing. The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at South Lanarkshire Council or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Introduction

Purpose of this report

1.01 The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement. The report is not only addressed to Members, but it is also addressed to the Controller of Audit who appoints us and as such is a consolidation of all key issues considered / reported previously by us to the Council during 2008/09.

Scope of the Audit

1.02 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.

1.03 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.

1.04 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Controller of Audit and other auditors such as Audit Scotland's Local Government Public Reporting Group and the Best Value Team.

1.05 Our audit for 2008/09 has been planned and conducted throughout the year to take into account these wider responsibilities and our obligations set out in the Code of Practice.

1.06 Under the requirements of the International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance of an entity.

1.07 This Annual Report to Members, together with our reports to the Risk and Audit Scrutiny Forum throughout the year (as set out in Appendix B), discharges our requirements under ISA 260.

Acknowledgment

- 1.08 We would like to formally extend our thanks to all South Lanarkshire Council Officers for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow

28 October 2009

2. Executive Commentary

Audit Opinion and Accounting Issues (Section 3)

- 2.01 Our opinion for the year ended 31 March 2009, as set out in the format presented by the Audit Commission, is **unqualified**.
- 2.02 The quality of the working papers prepared by management were of a high standard and we believe a good working relationship continues to exist between ourselves and your officers. Overall, an effective audit process was achieved throughout the year.
- 2.03 During the course of our audit, a number of financial adjustments and disclosure amendments were discussed and agreed with management. However, all audit adjustments have been reflected in the final financial statements. Therefore, there are no unadjusted differences to report to you.
- 2.04 During the course of our review of the financial statements we discussed a number of accounting issues with management, in particular areas within the financial statements which are subject to a degree of management judgement. A number of the key areas discussed with management are outlined within this section: Provisions, Council house valuations and International Financial Reporting Standards.

Financial Management and Performance 2008/09 (Section 4)

- 2.05 During 2008/09 the Council achieved a small surplus of £0.210 million. This was in line with the financial position forecast by management throughout 2008/09, reported to the Executive Committee.
- 2.06 In addition to the cumulative general fund carry forward balance of £4.223 million, the Council held £51.304 million in other reserves as at 31 March 2009.
- 2.07 The Council's Housing Revenue Account (HRA) reported a deficit of £9.842 million as at 31 March 2009. This in year deficit has been offset against prior year surpluses held in reserve, resulting in a small surplus of £0.188 million, which will be carried forward into 2009/10.
- 2.08 At the start of the 2008/09 financial year, the Council set a capital budget (excluding the housing programme) of £119.246 million. Actual capital expenditure incurred as at 31 March 2009 was £114.375 million. Therefore, capital expenditure for 2008/09 was £4.871 million less than budget due to timing differences.
- 2.09 The housing capital budget for 2008/09 was set at £38.552 million. Actual housing capital expenditure as at 31 March 2009 was £38.543 million. Therefore, housing capital spend was in line with budget.

Financial Forecasts 2009/10 and onwards (Section 5)

- 2.10 The Council approved its budget for 2009/10 in February 2009. Expenditure has been budgeted at £721.080 million, with total income budgeted at £595.581 million (incorporates specific grants, non-domestic rates, general government grants and share of council tax freeze funds). The remainder of expenditure will be met through the collection of Council Tax income of £125.499 million.
- 2.11 The Scottish Government expects each Council to achieve annual efficiency savings of 2%. The Council has identified savings equating to 2.14% of the Council's total budget.
- 2.12 Council management are currently producing a financial strategy for 2010/2011. An initial paper was presented to the Executive Committee on 13 May 2009 outlining the proposed strategy for 2010/11 onwards including areas of financial pressure that the Council would need to address.

Governance and Systems of Internal Control (Section 6)

- 2.13 The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control, included within the annual financial statements.
- 2.14 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Council's Governance and Internal Control Statement.
- 2.15 Our Internal Controls Report was finalised in April 2009. The report contained 12 recommendations to improve controls.

Best Value and Performance (Section 7)

- 2.16 During 2008/09 the Accounts Commission formally reported its findings in respect of the Best Value review of South Lanarkshire Council. In addition, in a number of our external audit reports we have provided commentary on the Council's best value and performance arrangements.
- 2.17 This section sets out commentary in respect of performance indicators, changes to governance scrutiny arrangements, the Council's continuous improvement agenda, asset management and procurement arrangements.

3. Audit Opinion and Accounting Issues

Audit Opinion

- 3.01 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.
- 3.02 Our opinion on the financial statements sets out the respective responsibilities of management and the auditors, and concludes on whether the statements:
- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of South Lanarkshire Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 3.03 Our opinion for the year ended 31 March 2009, as set out in the format presented by the Audit Commission, is **unqualified**.

Audit Process

- 3.04 The draft financial statements and supporting schedules were made available to us at the start of our audit in line with our agreed timetable.

- 3.05 The quality of the working papers prepared by management were of a high standard and we believe a good working relationship continues to exist between ourselves and your officers. Overall, an effective audit process was achieved throughout the year.

Preparation and Approval

- 3.06 The draft financial statements were signed by the Executive Director of Finance and Information Technology on 26 June 2009 and submitted to the Controller of Audit by 30 June 2009. Co-operation between management and ourselves has ensured the timely completion of the audited financial statements by 30 September 2009.

Unadjusted misstatements

- 3.07 During the course of our audit, a number of financial adjustments and disclosure amendments were discussed with management. As a result of our work we proposed a number of audit adjustments, with all adjustments processed by management in the finalised version of the 2008/09 financial statements.
- 3.08 Under ISA 260 - "Communication of audit matters to those charged with governance" - we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature. However, all audit adjustments have been reflected in the final financial statements. Therefore, there are no unadjusted differences to report to you.

Audit Process

- 3.09 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 Valuation Joint Board;
 - Regen FX Youth Trust; and
 - South Lanarkshire Leisure Ltd.
- 3.10 The above organisations are subject to individual external audits and audit opinions.

Accounting Issues

- 3.11 During our review of the financial statements we discussed a number of accounting issues with management, in particular areas within the financial statements, which are subject to a degree of management judgement. A number of the key areas discussed with management are outlined below:

Provisions

- 3.12 Included within the draft financial statements was a contingent liability in respect of the Secondary Schools modernisation programme due to delays in handing over sites to the contractor. However, it was determined that £1.3 million met the definition of a provision and should therefore be reflected in the Council's expenditure and balance sheet as at 31 March 2009.
- 3.13 This adjustment was reflected in the final signed financial statements.

Council House Valuations

- 3.14 Within the balance sheet the value of council houses has increased by £164 million. We undertook a review of this valuation increase in light of the current economic climate and the need to potentially impair certain assets.
- 3.15 Overall, council house values for 2008/09 have been calculated in accordance with Royal Institute of Chartered Surveyors (RICS) guidance and the SORP and we have been able to place reliance on the Council's valuation.
- 3.16 Going forward it is noted that the Beacon valuation principle, which is currently used, may need to be revisited when the Council moves to International Financial Reporting Standards (IFRS) compliant financial statements

International Financial Reporting Standards (IFRS)

- 3.17 The Chancellor's announcement in the 2008 Budget introduced the requirement for local government bodies to adopt IFRS for 2010/11, including the restatement of 2009/10 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

3.18 The introduction of IFRS to the Council is likely to impact on the following areas of the financial statements:

- Accounting for the Secondary Schools Modernisation Programme, as this programme has been funded through Public Private Partnership arrangements (PPP);
- Review of leases, in particular classification of operating leases and finance leases;
- Holiday pay accrual reflecting entitlement as at 31 March on an annual basis; and
- Valuation of infrastructure assets at current cost as opposed to historical cost.

3.19 The Council will also need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis. In order to restate the 2009/10 closing balances under IFRS, the Council will be required to recalculate its opening balance sheet as at 1 April 2009 on an IFRS basis.

3.20 **Management should continue to assess the above during 2009/10 in preparation for IFRS accounting.**

Action 1

4. Financial Management and Performance 2008/09

Financial Performance for the year ended 31 March 2008

4.01 The Council's financial position as at 31 March 2009 is set out below, as summarised from the financial statements for 2008/09:

	£m
Extracted from the Income and Expenditure Account:	
Net operating expenditure	(739.553)
Income received (Council Tax, Government Grants and Non Domestic rates)	<u>658.624</u>
Deficit in year	(80.929)
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 FRS17 pension costs and fixed asset depreciation charges)	<u>81.139</u>
Increase in General Fund Balance 2008/09	0.210
General Fund Balance brought forward from 2007/08	<u>4.013</u>
General Fund Balance carried forward to 2009/10	<u>4.223</u>

4.02 During 2008/09 the Council achieved a small surplus of £0.210 million. This was in line with the financial position forecast by management throughout 2008/09, reported to the Executive Committee.

Reserves

- 4.03 In addition to the cumulative General Fund carry forward balance of £4.223 million, the Council held £51.304 million in other reserves as at 31 March 2009:

	£m	Purpose
Repairs and Renewals Reserve	15.974	Designed to finance expenditure incurred in repairing, maintaining and replacing Council assets.
Capital Fund	17.916	Money earmarked by the Council to fund individual capital programmes and to fund the repayment of loans fund principal.
Insurance Fund	4.324	Each individual Council Resource contributes to the fund during the year, with the balance used to meet the costs of fire damage, public liability, employer liability and various other claims.
Useable Capital Receipts Reserve	<u>13.091</u>	Receipts from the sale of fixed assets.
	<u>51.304</u>	

- 4.04 **It is recognised that the Council has in place a financial strategy, which includes Council reserves. However, the Council does not have in place a dedicated reserve strategy, setting out how reserves will be maintained and utilised.**

Action 2

Housing Revenue Account

- 4.05 The Council's Housing Revenue Account (HRA) reported a deficit of £9.842 million as at 31 March 2009. This in year deficit has been offset against prior year surpluses held in reserve, resulting in a small surplus of £0.188 million, which will be carried forward into 2009/10.

Capital Programmes – General Fund Capital and Housing Capital

- 4.06 At the start of the 2008/09 financial year, the Council set a capital budget (excluding the housing programme) of £119.246 million. Actual capital expenditure incurred as at 31 March 2009 was £114.375. Therefore, capital expenditure for 2008/09 was £4.871 million less than budgeted.
- 4.07 The principal reasons for this underspend is timing differences in relation to the Schools Modernisation programme and delays in work starting. The Schools Modernisation programme is a significant capital programme spanning a number of years and as a result timing delays are anticipated and built into the Capital programme where appropriate.
- 4.08 The housing capital budget for 2008/09 was set at £38.552 million. Actual housing capital expenditure as at 31 March 2009 was £38.543 million, therefore in line with budget.
- 4.09 During the year the Council borrowed additional money to contribute towards the funding of the Housing capital plan as Council house sales were significantly lower than anticipated (661 sales in 2007/08 compared with 221 in 2008/09).
- 4.10 **Going forward, it is recommended that Council sales (houses and other sales) are reviewed to ensure forecasts remain reasonable given the current economic market.**

Action 3

Trading Services

4.11 The Council operates five Trading Services:

- Facilities management;
- Fleet services;
- Grounds maintenance;
- Roads; and
- Building maintenance

4.12 Each Trading Service must break even over a 3 year period. In 2008/09 each Service generated a surplus and the three year breakeven target was achieved.

5. Financial Forecasts for 2009/10 and Onwards

2009/10 Projected Financial Position

- 5.01 The Council approved its budget for 2009/10 in February 2009. Expenditure has been budgeted at £721.080 million, with income budgeted at £595.581 million (incorporates specific grants, non-domestic rates, general government grants and share of council tax freeze funds). The remainder of expenditure will be met through the collection of Council Tax income of £125.499 million.
- 5.02 Regular finance reports are presented to both the Executive Committee and the Budget Scrutiny Forum during the year outlining actual performance to date compared with budget and explanations for any large variances.
- 5.03 As at September 2009, the Council were continuing to forecast a break even position for 2009/10.
- 5.04 Particular areas of financial pressures built into the 2009/10 budget are:
- Increases in pay and pension costs;
 - Increasing gas and electricity prices which increased by 30% in 2008/09;
 - Costs associated with land fill tax;
 - Inflationary increases in care home fees
 - Growth in loan charges due to significant borrowing to fund the Council's capital programmes in particular the schools modernisation programme.

Financial Strategy

- 5.05 Management are currently producing a financial strategy for 2010/2011. An initial paper was presented to the Executive Committee on 13 May 2009 outlining the proposed strategy for 2010/11 onwards including areas of financial pressure that the Council would need to address.
- 5.06 Given anticipated reductions in government funding, the Council is anticipating the need to make savings of £21 million for 2010/11, and £30 million from 2011/12 onwards (representing 4% of the Council's total expenditure per annum). A number of approaches are being explored:
- Consideration of non-core areas of spend where reductions could be achieved;
 - Review of services provided in particular areas where charges could be introduced or increased;
 - Exploring options identified as part of an efficiency diagnostic which was undertaken;
 - Alternative service delivery options which would result in decreased costs; and
 - Continuing to target efficiency savings for each Resource.
- 5.07 To date, two Members sessions (May 2009 and October 2009) have taken place, presenting proposals for 2010/11. A formal report, seeking approval for the outline 2010/11 budget was submitted to the Executive Committee 7 October 2009. This outline budget included an estimate of grant funding, and was deferred to allow further political discussions to take place.

- 5.08 **Once the financial strategy for 2010/11 is determined and savings approved, management should look to produce a longer term financial strategy reflecting the anticipated reductions in funding over the next three to four years.**

Action 4

Efficiency Savings 2009/10

- 5.09 The Scottish Government expects each Council to achieve annual efficiency savings of 2%. The Council has identified savings which equate to 2.14% of the Council's total budget.

Organisational Restructuring

- 5.10 As part of the Council's efficiency savings diagnostic work, savings were identified through the restructuring of management. As a result of this work a paper was presented to the Executive Committee on 9 September 2009 outlining proposals to alter the organisational structure of the Council. This paper considered immediate restructuring options (2009/10 and 2010/11) as well as future proposals (2011 and beyond)
- 5.11 Overall this demonstrates that the Council is taking positive action to address the shortfall in funding and ongoing financial pressures, not just by considering savings at the margin but commencing a more fundamental review

Managing in an Economic Downturn

- 5.12 In March 2009, a paper was presented to the Council's Executive Committee outlining key aspects of the economic downturn and the implications for South Lanarkshire. In particular, the paper proposed a series of actions to be implemented by the Council as part of the measures taken to support local companies who may be affected.

- 5.13 This paper and action plan was produced by the Council in conjunction with its key partners within the economic forum, including Skills Development Scotland, Scottish Enterprise and the Clyde Gateway Urban regeneration company.

- 5.14 Particular actions agreed by the Council included accelerating the Council's capital programme where applicable, paying bills promptly by making payments within 30 days and ensuring that procurement practices contribute to the local economy where applicable.

5.15 The future economic outlook and likely government funding constraints will have a significant impact on the Council going forward. Although the extent of this impact is not yet defined, there is anticipated to be a number of factors which influence the future of local authorities, including those set out below:

Income Pressures	Cost Pressures	Demographics	Timing Issues	Policy Decisions
<ul style="list-style-type: none"> • Reduction in grant income • Pressure to freeze and/or reduce Council Tax • Reduction in income from fees and charges • Reductions in Council Tax collection • Reduced property sale revenue • Less income from investments • Loss of non domestic rates funding • Return of ring fencing 	<ul style="list-style-type: none"> • Rent arrears • Changes in personal circumstances e.g. homeless, low income • Increase in sickness absence • Increasing utilities and fuel costs • Higher levels of fraud and theft • Debts more difficult collect • Shift from private to public reliance (e.g. education, schools, housing) • Supplier failure 	<ul style="list-style-type: none"> • Increasing burden of care costs • Cost of inbound migration • Increase in sickness absence • Ageing, less flexible workforce – pay grade inflation • Increase in level of care case referrals 	<ul style="list-style-type: none"> • Top up of final salary pensions • Short term costs of investing in change • Equal pay claims • Local and national election paralysis • Legacy of under investment in infrastructure 	<ul style="list-style-type: none"> • Setting invoices with 10 working days • Lower passenger transport levy increases • Impact on ‘green’ legislation e.g. landfill tax • Investment in localism • Potential decreases in collaboration • Changes to national insurance regime • Unwillingness/inability to make redundancies or generous packages • Local business subsidies which would need funded

5.16 **Looking ahead when devising the longer term financial strategy of the Council, management will need to consider potential areas of council wide transformation, making difficult decisions on how best to use the limited funding available, including considering alternative service delivery models.**

Action Point 5

6. Governance and Systems of Internal Control

Statement of Governance and Internal Control

- 6.01 The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control, included within the annual financial statements.
- 6.02 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; in particular the statement highlights a number of improvements that it plans to address in 2009/10 as a result of the Accounts Commission Best Value Audit.
- 6.03 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Council's Governance and Internal Control Statement.

Systems of Internal Control

- 6.04 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.

- 6.05 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 Members or management in discharging their responsibilities.

Financial Systems and our 2008/09 Internal Controls Report

- 6.06 Our Internal Controls Report was finalised in April 2009, no critical or high risk control weaknesses were identified. Our recommendations were primarily in relation to the need to complete a number of key reconciliations on a timely basis, ensure reconciliations were reviewed and this review formally recorded and that unreconciled differences were investigated and corrected on a timelier basis.
- 6.07 The Council has put in place 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 2009/10 audit.

Follow up of outstanding recommendations

- 6.08 We followed up the Council's progress in implementing our external audit recommendations made during 2007/08. Our Follow Up report was submitted to management in March 2009 and reported to the Risk and Audit Scrutiny Forum in May 2009.

6.09 Of the 17 agreed recommendations reported in our follow up report, excellent progress had been made, as follows:

Status	Total
Fully implemented	14
Action in progress	0
Little action to date	0
No longer applicable	3
Total	17

Internal audit

6.10 As recommended by the International Standard on Auditing (ISA) 610, "The Auditor's Consideration of the Internal Audit Function", we consulted Internal Audit during our interim audit visit to discuss their programme of work for the current financial year, to establish progress against the internal audit plan and to review a summary of their completed reports to determine the main issues being reported.

Fraud and Corruption

6.11 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.

National Fraud Initiative

6.12 The National Fraud Initiative (NFI) is an exercise whereby data is taken from Councils and other public bodies, and cross matched to identify the potential for fraud. Councils are then informed of the resulting indicative matches, which are then investigated by management.

6.13 The 2008/09 exercise is similar to the one undertaken in 2006/07 covering for example matches in benefits, payroll and creditors. The number of Council matches for 2008/09 was 51% lower than the number of matches identified as part of the 2006/07 exercise.

6.14 The Council's internal audit team co-ordinates the NFI exercise, with each Council Resource assigned responsibility for preparing and implementing a strategy for investigating the matches relevant to them.

6.15 Of the 532 target investigations that were to be completed by 31 March 2009, 495 (93%) were undertaken in time. A project plan has been prepared for 2009/10, which includes the carry forward of cases still to be investigated.

Corporate Risk Register

6.16 The Council reviews and updates the Corporate Risk Register on an annual basis. The top 5 risks facing the Council were identified as being:

- Reductions in central government and other sources of funding;
- Reduction in income, tax collection, service charges, capital receipts;
- Scope for internal choices and priority choices diminish over time against competing service demands;
- Equal pay claims; and
- Reputational damage caused by service change and efficiencies.

6.17 Overall, the updated corporate risk register has taken into account the severity of the current economic climate and the impact the spending review will have on future resources.

- 6.18 A work plan exists to further embed the council risk management strategy. Included in the work plan is the assignment of the top ten risks to lead officers. On an annual basis the corporate risk register is reported to the Corporate Management Team and the Executive Committee. **Going forward, management should ensure more regular risk updates are presented to the Executive Committee and Risk and Audit Scrutiny Forum during the year, outlining progress against the corporate risks and mitigating controls and actions.**

Action 6

Common Good Fund

- 6.19 The Council has four common good funds – Lanark, Biggar, Rutherglen and Hamilton.
- 6.20 The Council maintains separate records for common good assets. These separate fixed asset arrangements are in line with the requirements of the Local Authority (Scotland) Accounts Advisory Committee (LAASAC) guidance.
- 6.21 Additions and disposals of common good assets require to be formally authorised by the Finance and Information Technology Resource Committee; the Executive Committee.

Trust Funds

- 6.22 The Council administers a total of 110 Trust Funds. Discussions have been ongoing with the Office of the Scottish Charity Regulator (OSCR) on the application of the “Charity Accounts (Scotland) Regulations 2006” to Local Authority Trust Funds. By 31 December 2009 the Council needs to submit to OSCR:
- A copy of the Council’s signed financial statements for 2008/09;
 - For each registered charity with income less than £100,000 a receipts and payment account and a trustees annual report; and

- For charitable companies or registered charities with income greater than £100,000, fully accrued accounts in accordance with the charities SORP.

- 6.23 It is emphasised that any Trust Fund submissions to OSCR are not subject to external audit. **However, going forward it is recommended when management review how they are going to fully comply with the charities legislation as it is intended that this will be implemented in full during 2009/10 when full charities accounts will be require to be produced and audited.**

Action 7

7. Best Value and Performance

7.01 During 2008/09 the Accounts Commission formally reported its findings in respect of the Best Value review of South Lanarkshire Council. In addition, in a number of our external audit reports we have provided commentary on the Council's best value and performance arrangements.

Performance Indicators

7.02 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.

7.03 The Accounts Commission published "The Publication of Information (Standards of Performance) Direction 2007" ("the 2007 Direction") in November 2008, to apply to the financial year 2008/09

7.04 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 58 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'

7.05 We consider the Council's arrangements for collecting, recording and publishing this performance data rather than auditing the data itself.

7.06 Based on our work we are pleased to report that all performance indicators were graded 'A'; the data appears to be reliable in material aspects.

Amendments to Scrutiny Forums

7.07 Following the Best Value review, management has reviewed the Council's corporate governance arrangements, in particular the scrutiny forums: Capital, Revenue, Trading Services and the Risk Management and Audit Forum. This has resulted in a number of changes, applicable for 2009/10:

- Capital, Revenue and Trading Services Scrutiny Forums have been merged into one new forum "Financial Resources Scrutiny Forum". This forum is now chaired by an Independent Council Member.
- The Risk Management and Audit Forum has been re-titled the "Risk and Audit Scrutiny Forum" with the chair a member of the opposition party. The remit of this forum has been aligned with recommended audit committee principles including being open to members of the public.

Continuous Improvement Agenda

- 7.08 The Audit of Best Value and Community Planning undertaken by Audit Scotland highlighted a number of strengths within South Lanarkshire Council's continuous improvement agenda, outlining a 'thorough and wide-ranging improvement agenda'. However, it identified that there is a need to further improve the co-ordination and prioritisation of the improvement agenda.
- 7.09 In response to this the Council has established a continuous improvement plan, which sets out all the improvement actions that are being taken forward across the Council. This plan includes the improvements identified within the best value review. The implementation of the Continuous Improvement plan will be led by a dedicated improvement unit.

Performance Management Arrangements

- 7.10 Performance management, although relatively developed within the Council, is an evolving area of focus with a number of changes currently underway. In particular, the Council is introducing the IMPROVe system, a performance management software package that will be used to coordinate arrangements across the Council; ensuring more consistent approaches are being applied throughout the Council to managing performance.
- 7.11 Phase 1 of the roll out took place in April 2009, with an update on this roll out and lessons learnt to be reported to the Corporate Management Team in September 2009. It is anticipated that the new system will allow for greater management reporting against the Council's objectives, as set out within the Council Plan, Connect and within the Single Outcome Agreement. In addition, actions in each Resource Service Plan will be included on IMPROVe, allowing for more accurate and timely monitoring.

Asset Management

- 7.12 The Council has a Corporate Asset Management Plan which is produced annually and is driven by the Council's values and objectives contained within Connect. Each Resource has Asset Management Plans which are driven by their Service Plans. This ensures asset plans are developed to achieve both the service needs as well as the overall priorities of the Council.
- 7.13 Resource Asset Management Plans are reviewed annually, with a complete redevelopment planned for every five years to ensure alignment with the capital programmes. The annual review follows exercises carried out council wide to review property. This considers the suitability of property. All properties are considered to ensure 'core facts' are correct and are graded based on condition, suitability and sufficiency. A traffic light system is used to grade all properties. All those in red are considered poor. The review process also considers statutory requirements and corporate aims and objectives. These are applied to the combined results to determine those properties requiring urgent attention, and areas to be included in capital programmes or repair and maintenance programmes.

Procurement Arrangements

- 7.14 The Council established a Strategic Procurement team in 2005, with the remit of coordinating a strategic approach to procurement. The remit of this team was to manage the strategic direction of Council procurement. While addressing some of the areas for development it was identified by management that the Council has not managed to sufficiently change the approach to procurement throughout the council and is still failing to realise a number of efficiencies that a centralised procurement function could generate. In June 2009 the Executive Committee approved a revised business case for centralised procurement, outlining a revised approach with service investment on the basis procurement efficiencies would be identified.

- 7.15 The proposed structure is one based on commodity teams within a centralised structure. This would enable a collaborative approach to procurement. The structure would include a team to support the procurement function, centralising contract management, training, and performance management. A head of procurement for the Council has recently been appointed, commencing September 2009 and is in the process of producing a detailed procurement action plan. We will follow up progress against this plan as part of our 2009.10 work.

Appendix A – Action Plan

Action Point Ref	Recommendation	Management Response
1	<p>IFRS Implementation</p> <p>Management should continue to assess the potential impacts of IFRS on the Council's financial statements during 2009/10 in preparation for IFRS accounting. In particular, consideration should be given to accounting for PPP schemes, leases, depreciation of infrastructure assets and holiday pay accruals.</p>	<p>Management Response: Agreed. Preparations are underway for IFRS. A report detailing this was presented to the Finance and IT Resources Committee on 27 October 2009. The assistance of CIPFA/PwC has been secured for advice and guidance.</p> <p>Responsible Officer: Paul Manning, Head of Finance</p> <p>Due Date: 31 March 2010.</p>
2,3,4 and 5	<p>Financial Planning Going Forward</p> <p>The Council should establish a dedicated reserve strategy, setting out how Council reserves are to be maintained and utilised.</p> <p>Given the current economic climate and the likely cuts in government funding, the Council going forward needs to focus on its longer term financial strategy. It is recognised that during this period a change to financial strategy will be necessary, and in particular different decisions will need to be made. Particular areas of management focus should include:</p> <ul style="list-style-type: none"> • Producing a dedicated reserves strategy, which sets out how Council reserves are ongoing to be maintained and utilised. • Reviewing planned Council house and other Council asset sales to ensure capital forecasts remain reasonable given the current economic climate. • Production of a longer term financial strategy, reflecting the savings of £21 million require for 2010/11 and then the ongoing need to save £30 million from 2011/12 onwards. • There will be a need to consider potential areas of Council wide transformation, making difficult decisions on how best to use the limited resources available. 	<p>Management Response: Agreed. The future financial position is understood and arrangements are being developed to consider options for dealing with the pressures this will bring.</p> <p>A revised medium term financial strategy will be prepared focussing on the period 2011-2014, among other factors; it will consider the issues specifically raised by the external auditors.</p> <p>Responsible Officer: Linda Hardie, Executive Director Finance and Information Technology Resources.</p> <p>Due Date: April 2010</p>

Action Point Ref	Recommendation	Management Response
6	<p>Risk Management</p> <p>Management should ensure more regular risk updates are presented to the Executive Committee and Risk and Audit Scrutiny Forum during the year, outlining progress against the corporate risks and mitigating controls and actions.</p>	<p>Management Response: Agreed. A connect performance measure already requires half yearly reporting by lead officers on top risks. Recent benchmarking with other local authorities provided the Council with examples of update styles for the management of top risks. Meetings between lead officers and the Risk and Audit Manager are currently in progress to secure the management information needed for such updates. Following the July report on top risks, the CMT requested a further update which is scheduled for November 2009. The programme of activity for the Risk and Audit Scrutiny Forum includes a mid year update on top risks during November 2009. We accept that planned mid year updates have not yet been delivered so we agree to deliver an update report to CMT and the Executive Committee on management of top 10 risks.</p> <p>Responsible Officer: Joan Allan, Risk and Audit Manager with input from Lead Officers.</p> <p>Due Date: January 2010</p>
7	<p>Compliance with Charity Regulations</p> <p>Going forward it is recommended when management review how they are going to fully comply with the charities legislation as it is intended that this will be implemented in full during 2009/10 when full charities accounts will be require to be produced and audited when OSCR criteria is met.</p>	<p>Management Response: Agreed. We expect to reach full compliance by the required date, submission of audited accounts to OSCR being required by December 2010. With regard to the Council's response to the requirements for financial year 2007/08, the Council received an "above average" classification from OSCR.</p> <p>Responsible Officer: Paul Manning, Head of Finance</p> <p>Due Date: December 2010.</p>

Appendix B – Communications to Management

International Standards on Auditing (“ISA”) (UK&I) 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 ISA 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 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 February 2009 Risk and Audit Scrutiny Forum confirmed no member of audit team has any direct interest, financial or otherwise, in South Lanarkshire Council.
Audit Approach and Scope	Set out in our Audit Planning document, reported to the February 2009 Risk and Audit Scrutiny Forum
Accounting Policies/Practices with a Material Effect on the Financial Statements	Set out in Section 3 of our Annual Report to Members and the Controller of Audit
Potential Effects of Material Risks and Exposures	Set out in our Audit Planning document, reported to the February 2009 Risk and Audit Scrutiny Forum
Audit Adjustments	Set out in our Annual Report to Members and the Controller of Audit within Section 3
Material Uncertainties relating to Going Concern	None identified.
Disagreement with management about Matters that could be Significant to the Financial Statements	None identified.

Communication Required under ISA 260	Reference/Comment
Expected Modifications to the Auditors Report	No modifications to the Audit Opinion, opinion provided is unqualified
Letter of Representation	Signed by the Executive Director of Finance and IT Resources, dated 30 September 2009
Material Weaknesses in Internal Control	No material weaknesses in Internal Control identified
Fraud	Discussed fraud arrangements with the Chair of the Risk Management and Audit Forum (February 2009) and Management throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to the Risk and Audit Scrutiny Forum in February 2009
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 30 September 2009
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 2008/09

During the year we have presented a number of formal reports to management and the Risk and Audit Scrutiny Forum and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing
Audit Plan	February 2009
Detailed Timetable for 2008/09 Financial Audit	February 2009
Follow Up Report	April 2009
Internal Controls Report	April 2009
Best Value Follow Up	August 2009
Business Issues Report – Priorities and Risk Framework	October 2009
Audit Opinion	September 2009
Annual Report to Council Members and the Controller of Audit	October 2009

In addition, we also reported on the following:

- The Councils Statutory Performance Indicators (August 2009);
- The Housing Benefit Subsidy Grant Claim (November 2009);
- The Non Domestic Rates Grant Claim (February 2009);
- The Education Maintenance Allowance Grant (July 2009);

During the course of 2008/09 we undertook two additional areas of work, outwith the annual audit fee. Both areas of work were agreed with Council management and approved by Audit Scotland:

- A review of the Council's Treasury Management Strategy (November 2008); and
- Information Governance baseline assessment (June 2009)

Outputs from both were reported directly to the Risk and Audit Scrutiny Forum during 2008/09.

Freedom of Information Act (Scotland) 2002

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), South Lanarkshire Council is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. South Lanarkshire Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, South Lanarkshire Council discloses any of this 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.

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. This report is protected under the copyright laws of the United Kingdom and other countries. Any other use or disclosure in whole or in part of this information without the express written permission of PricewaterhouseCoopers LLP is prohibited.