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South Lanarkshire Council

Annual Report to Members and the Controller of Audit for the year ended 31 March 2013

25 September 2013

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Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In May 2011 Audit Scotland issued a revised Code of Audit Practice. The Code's purpose is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of the Code. Reports and letters prepared by appointed auditors and addressed to Members and the Controller of Audit are prepared for the sole use of the audited body or the Controller of Audit and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party not expressly stated.

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Glasgow
G2 7EQ

Members and the Controller of Audit
South Lanarkshire Council
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25 September 2013

Dear Members and the Controller of Audit

We are pleased to enclose our Report to the Members and the Controller of Audit in respect of our external audit for the year ended 31 March 2013. The primary purpose of this report is to communicate significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Risk and Audit Scrutiny Forum in February 2013. We have subsequently updated our audit plan and have made one change to our plan which we wish to bring to members attention.

As required by auditing standards, there is a presumption that there is a risk of material misstatement due to fraud in revenue recognition and as a result we have recognised the risk of fraud in revenue recognition as an additional significant risk for the 2012/13 audit. This audit risk has been included in all of our public sector external audit plans for 2012/13 and is not specific to South Lanarkshire Council.

We have completed our audit work and will issue an **unqualified** audit opinion on the financial statements. We would like to take this opportunity to thank management and staff for their assistance during the audit process.

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Executive summary

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 Audit Scotland Code of Audit Practice ("the Code"), revised and published in May 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board's International Standard on Auditing (UK and Ireland) "ISA (UK&I) 260 - Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the Council's accounts.

This Annual Audit Report to Members and the Controller of Audit, together with previous reports in the year to the Risk and Audit Scrutiny Forum and Executive Committee, discharges the requirements of ISA (UK&I) 260. It contains the significant matters we wish to report to you arising from our audit work.

Financial Statements - Section 1

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2013 is **unqualified**.

We proposed a number of adjustments during the audit relating to disclosure matters in the 2012/13 financial statements. These have been processed by management in the final version of the financial statements. There are no unadjusted misstatements.

Use of Resources - Section 2

The Comprehensive Income and Expenditure Statement for 2012/13 shows a surplus on the Provision of Services of £3.362 million, in comparison to the prior year deficit on provision of services of £20.258 million.

The Council budgeted for a breakeven position in 2012/13 and returned an under spend. After adding the surplus on provision of services and transfers from the capital fund, the Council increased its General Fund balance by £20.248 million to £30.718 million, compared with a balance of £10,470 million as at 31 March 2012.

In total the Council had useable reserves of £107,668 million at 31 March 2013. Useable reserves include the General Fund, Capital Fund, and other statutory funds. These reserves are designed to enable the Council to deal with unforeseen events and help manage for future periods of heightened uncertainty.

The Council's 2012/13 Efficiency Statement reported efficiency savings achieved across all resources, totalling £19.390 million. This comprised of £12.503 million cash efficiencies and £6.887 million in non-cash efficiencies.

Governance - Section 3

We have assessed the Council's overall governance arrangements including a review of key Council and Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place.

The Code of Audit Practice requires us to review and report on the Council's Annual Governance Statement. The Council has outlined the key structures and processes it employed to identify and evaluate risks. In addition, key roles and responsibilities in the Council's governance framework have been highlighted, along with a self evaluation of developments and areas for further improvement. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Performance - Section 4

The Council reports on a range of mandatory Statutory Performance Indicators (SPIs) which are used by Audit Scotland to compare the performance of all authorities in Scotland. In addition to this, councils are encouraged to identify supplementary key performance measures in addition to the statutory measures to provide more tailored performance information. Based on our work performed, the Council was able to demonstrate the basis for the SPIs reported.

Acknowledgement

We would like to formally extend our thanks to the Council's officers and staff for the assistance they have given us during the audit process.

1. Financial Statements and Audit Opinion

Audit Opinion

We have completed the audit of the Council's accounts in line with current International Standards on Auditing (UK and Ireland) ("ISAs") and have given an **unqualified** opinion that the financial statements of the Council for 2012/13 give a true and fair view of the financial position and expenditure and income of the Council for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Our opinion on those selected parts of the Remuneration Report which are subject to audit is also **unqualified**. Our audit opinion does not extend to any other part of the Remuneration Report.

Audit Approach

1.01 Our audit approach was set out in our Annual Audit Plan as presented to the Risk and Audit Scrutiny Forum on 5 February 2013. We have subsequently updated our audit plan and have made one change which we wish to bring to members attention.

1.02 As required by auditing standards, there is a presumption that there is a risk of material misstatement due to fraud in revenue recognition and as a result we have recognised the risk of fraud in revenue recognition as an additional significant risk for the 2012/13 audit.

Audit Process

1.03 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The working papers provided were of a high standard and reflected the deliverables listing we issued to management in advance of the audit. Overall we believe an efficient audit process was achieved and an effective working relationship continues between us and your officers. Therefore we would like to extend our thanks to the Finance team.

Basis of Preparation

1.04 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

Misstatements and significant audit adjustments

1.05 We are required to report to you all unadjusted misstatements (matters we have identified but which officers have chosen not to adjust) which we have identified during the course of our audit, other than those of a trivial nature. In the context of the Council we consider that amounts of a value less than £100,000 are of a trivial nature.

1.06 A number of adjustments to the format and disclosure within the Financial Statements have been identified during the course of our audit and have been processed by management in the final version of the 2012/13 financial statements. No financial adjustments have been raised through our audit work and there are no unadjusted misstatements.

Areas of Audit Focus and Significant Accounting Issues Identified

1.07 During the course of our audit we identified a number of key areas at the planning stage which were reported to those charged with governance as part of our annual audit plan in February 2013. In addition, during our year end audit procedures there are inevitably certain areas which result in further challenge due to their judgemental nature. An overview of the more significant audit areas is set out below.

Area of Focus	Response
Risk of Fraud in Revenue and Expenditure Recognition There is a rebuttable presumption in International Standards on Auditing (UK&I) to consider if there is a significant risk over revenue recognition and adapt our audit procedures accordingly. For the purposes of the Council the risk of fraud in revenue recognition is also inverted to reflect the risk around misstatement of expenditure.	We performed substantive testing on a sample of transactions from each material category of expenditure and income to confirm, with reference to supporting documentation, that it was recorded at the correct value and in the correct period. This also included audit testing over the year-end payables and accruals balances for expenditure and substantive testing over government funding for income. Our work performed on manual journals was also planned and designed to identify higher risk transactions. **Our work did not identify any adjustments in respect of either revenue or expenditure recognition.**
Management override of controls In any organisation, management may be in a position to override the financial controls. A control breach of this nature may result in a material misstatement of your financial position. For all of our audits, ISAs require us to consider this as a significant risk and develop our audit procedures accordingly.	We have updated our understanding of management's overall fraud arrangements and fraud policies such as whistle blowing policies. We have performed targeted audit testing of manual journals to ensure their legitimacy, and have incorporated unpredictability, which includes testing of financial areas, such as the income and expenditure account and also non-financial areas, such as related party disclosures. We have also confirmed that the Council has appropriately commenced its review of the 2012/13 National Fraud Initiative exercise. **We found no matters which we considered to be management override of controls.**
Budgetary Control As with other local authorities, the Council faces a range of challenges including the identification of saving areas, effective budgetary control and financial management. We identified this as an elevated risk at the planning stage.	This elevated risk reflected prior year weaknesses. Our review of the budgetary process showed that the Council's reorganisation is now fully reflected in the budget planning process. **There were no weaknesses identified as part of this review or from the follow up of prior year findings.**

Area of Focus	Response
Reserves	The Council has transferred funds from the Capital Fund to the General Fund. A transfer of £12.227 million was made from the Capital Fund to the General Fund. As is recognised elsewhere in this Report, the Council does face a number of areas of uncertainty in the future. A paper presented to the Executive Committee in February 2013 stated that this is to allow greater flexibility for the Council moving forward. The Council's Finance strategy to 2017 proposes converting a further £12 million in years 2013/14 to 2014/15 and a further £15 million in 2015/16. **The Council should continue to ensure that it maintains a clear reserves strategy and necessary reserves are available to ensure ongoing business resilience and flexibility.**
Contingent Liabilities – Equal Pay South Lanarkshire Council is engaged in an Employment Tribunal in respect of a number of conjoined equal pay claims, with 3,271 equal pay claims lodged with the Employment Tribunal at 4 September 2013.	This is an area of audit focus due to the changes which have occurred around this matter since our planning stage of the audit, including the Council entering exploratory discussions with the claimants' solicitors, Fox and Partners and the postponement of the Employment Tribunal hearing. Given this information we have considered whether it remains appropriate to disclose the equal pay claims as a contingent liability or whether there is a basis for providing a provision for a liability on the balance sheet. IAS 37 establishes that a provision requires all of the following conditions be fulfilled before a provision can be recognised: 1. the entity currently has a liability as a result of a past event; 2. an outflow of resources is likely to be needed to settle the liability; and 3. the amount of the obligation can be estimated reliably When we examine the conditions above: as the claims relate to prior periods of employment, the criteria of a past event is met; while the Council has not previously made any equal pay settlements, it could be determined that there may be a future need to settle certain claims, therefore this criteria may also be met; and at this stage there has been no agreement on the comparator groups, comparable pay scales or the period of entitlement which would require agreement before any quantification could be made to calculate a reliable estimate of any claim to be paid. While both the Council and claimant may be in a position to make estimates as to what the obligation may be, unless this can be made reliably, i.e. a calculation by claim, any potential obligation cannot be reliably estimated. Therefore we believe that this condition is not met. **We are satisfied that the Council's potential liability in respect of equal pay claims should be disclosed as a contingent liability as at this stage there is insufficient evidence to reliably estimate the cost, to allow a provision to be calculated.** **ACTION 1**

2. Use of Resources

2012/13 Financial Performance

The Council reported a surplus of £3.362 million on the provision of services in 2012/13, compared to a deficit of £20.258 million in 2011/12. It is important to recognise that this largely reflects the impact of accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

South Lanarkshire Council increased its General Fund balance by £20.248 million during 2012/13. This increase was due to a number of factors, including addition of the uncommitted general fund surplus for the year, as well as a transfer of £12.227 million from the Council's Capital Fund Reserve.

2.01 The Council's General Fund financial performance for 2012/13, including non-controllable expenditure, is summarised in the table below.

Provision of Services and General Fund	2012/13 actual £000		2011/12 actual £000	
Net Cost of Services	**(675,199)**		**(707,660)**	
Other operating (expenditure)/income	(3)		7,973	
Financing and investment (expenditure)	(55,892)		(47,123)	
Taxation and non-specific grant income	734,456		726,552	
Surplus/(Deficit) on Provision of Services	**3,362**		**(20,258)**	
General Fund	**General Fund**	**HRA Fund**	**General Fund**	**HRA Fund**
Surplus/(Deficit) on Provision of Services	**8,266**	**(4,904)**	**(11,561)**	(8,697)
Adjustments between accounting basis and funding basis under regulations.	(1,028)	2,373	16,991	13,561
Net Increase before Transfer to Reserves	7,238	(2,531)	5,430	4,864
Transfers to/(from) Reserves	13,010	-	(3,436)	-
General Fund increase in the year	**20,248**	**(2,531)**	**1,994**	**4,864**
General Fund Opening Balance	10,470	9,819	8,476	4,955
General Fund Closing Balance	**30,718**	**7,288**	**10,470**	**9,819**

2.02 The overall resource outturn for controllable expenditure in the year, as shown in the Resource outturn report presented to the Executive Committee, was an underspend of £0.019 million. Key variations of the Council's Resources from budget, were as follows: :

- **Education** reported an overspend of £0.008 million.
- **Housing and Technical** reported an underspend of £0.222 million due to the recovery of internal support income, partially offset by legal fees in pursuit of bad debts, and the under recovery of income within Estates rental properties.

- **Social Work** reported an underspend of £0.049 million due to unfilled vacancies and less than anticipated property costs.
- **Community and Enterprise** reported an overspend of £0.475 million due to additional commitments in respect of cemeteries and country parks, as wells as an overspend in internal management and support. This is offset by an over recovery of surplus from Trading Operations.
- **Finance and Corporate** reported an under spend of £0.231 million due to lower than budgeted service costs in relation to IT server support , over recovery of income against budget relating to Licensing and Registration Services and vacancies in Corporate Communications and Public Affairs and Finance.

2.03 It should be noted that the operational budget and actual outturn (see 2.02) are calculated on a Service basis which reflects the Council's management structure; whereas the figures reported in the Comprehensive Income and Expenditure Statement (see 2.01) are calculated based on that prescribed by the Service Reporting Code of Practice (SeRCoP) and therefore the two are not directly comparable.

Capital Expenditure

2.04 The Financial Resources Scrutiny Forum, together with Resources Committees, are responsible for monitoring capital spend. This ensures that capital allocations are approved and with the aim to reduce the level of slippage incurred on individual projects.

2.05 The Council had a revised general fund capital programme budget for 2012/13 of £116.016 million (2011/12: £120.081 million). The 2012/13 actual expenditure was £114.861 million, per the Capital monitoring final outturn report to the Executive Committee. Most of the capital programme is funded through borrowing (£75.667 million), with the remainder funded from a combination of grants (£29.277 million), reserves and revenue (£7.952 million) and receipts generated from the sale of assets (£1.965 million).

Trading Operations

2.06 South Lanarkshire Council operates 5 trading operations (Facilities Management, Fleet Services, Grounds Maintenance, Roads and Property services). Each trading operation achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2012/13 was £9.988 million (2011/12 £10.492 million), with a cumulative surplus of £30.489 million achieved over the latest three year period, per the Annual Report and Accounts.

Efficiency Savings

2.07 The Council is required to contribute 2% of annual savings towards the Scottish Government's Efficiency Targets. The Council's Corporate Management Team recognise that significant savings, beyond operational efficiencies, are required to be identified to balance the Council's budget over the upcoming period.

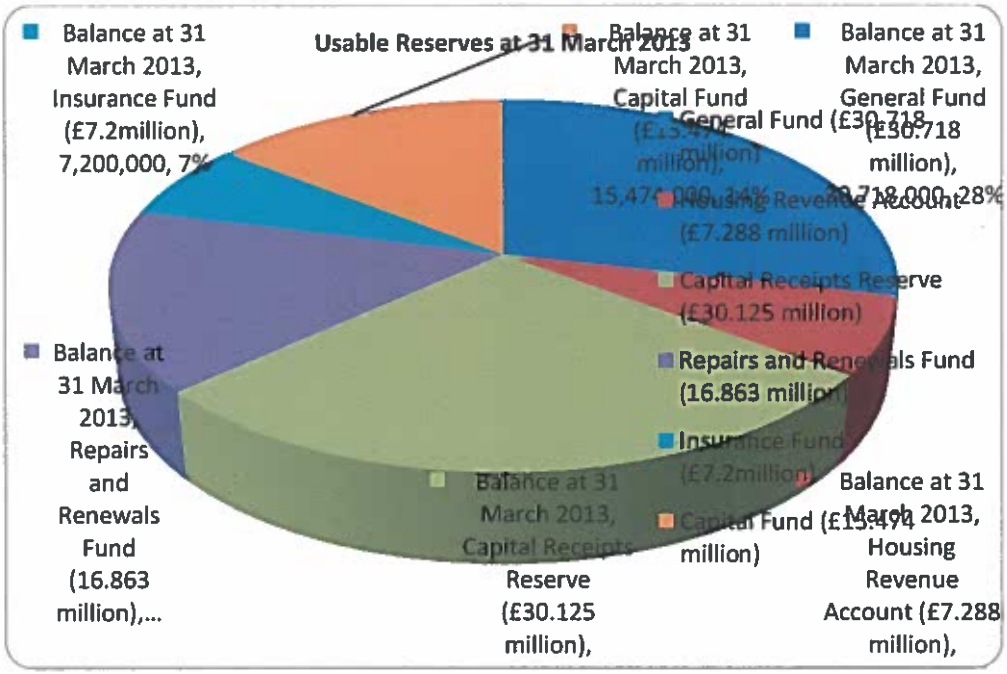
2.08 The Council's 2012/13 Efficiency Statement reported efficiency savings achieved across all resources, totalling £19.390 million. This comprised of £12.503 million cash efficiencies and £6.887 million in non-cash efficiencies.

2.09 Savings are monitored and reported during the year to ensure that the commitment in terms of service delivery remains. Areas in which efficiency savings have been achieved are:

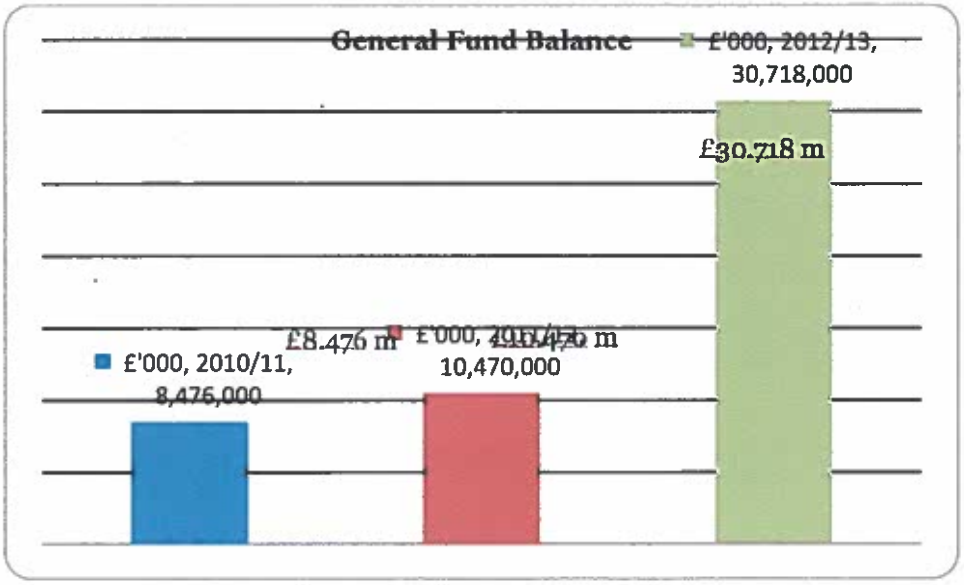
a. Continued implementation of results from the National Diagnostic Exercise;
b. Contract savings due to economies of scale, through National, Sectoral and Contract Compliance;
c. Review arrangements for 'Supporting your Independence'; and
d. Disposal of surplus land.

Reserves

2.10 The Council had total Usable Reserves of £107.668 million at 31 March 2013. An analysis of these reserves is presented below:



2.11 The Council had a General Fund balance of £30.718 million as at 31 March 2013, an increase of £20.248 million from the prior year. As can be seen from the graph below, the general fund balance has been rising year on year, with considerable growth in the current year.



2.12 The most notable addition to this increase in 2012/13 was in relation to the transfer of £12.227 million from the Capital Fund:

- The Council's Executive Committee approved the transfer from the Capital Fund to the General Fund in February 2013; and

- The Council's Finance strategy to 2017 proposes transferring a further £12 million in years 2013/14 to 2014/15 and a further £15 million in 2015/16. This is designed to enable the Council to have greater financial flexibility.

2.13 The total General Fund balance carried forward of £30.718 million, represents 2.9% of 2012/13 expenditure. This is split between earmarked reserves (£19.133 million) and uncommitted balances (£11.585 million).

2.14 The Capital Receipts Reserve, Repairs and Renewal Fund and Insurance Fund remained largely unchanged during the year. There was a decrease of £2.531 million in the Housing Revenue Account during the year, due to a deficit on the provision of services.

Revenue budget

2.15 The Council approved its 2013/14 revenue budget of £664.791 million (2012/13 budget £718.216 million) in February 2013, which provided for a break-even position. The significant movement in the Council's budget from 2012/13 to 2013/14 reflects the impact of Police and Fire Reform and the financial adjustment required to remove these from the Council's budget.

2.16 The budget model for the next three years requires savings to ensure delivery of a balanced budget. The table below details these savings, assuming a 'flat cash' government grant in the years 2014/15 to 2016/17.

	2014/15 £ million	2015/16 £ million	2016/17 £ million
Estimated Income			
Government Grant	538.502	538.502	538.502
Council Tax	127.700	127.700	127.700
Total Estimated Income	**666.202**	**666.202**	**666.202**
Base Expenditure Budget	**664.791**	**666.202**	**666.202**
Pay/Pensions	4.655	4.718	4.781
Price Increases	4.230	3.640	3.640
Related Parties and Joint Boards	0.290	0.295	0.300
Funding for Priorities	5.850	4.850	4.850
Revenue Consequences of Capital	0.724	0.500	0.342
Other	(1.029)	1.000	1.250
Total Expenditure Before Savings	**679.511**	**681.205**	**681.365**
Savings Requirement in Year	**13.309**	**15.003**	**15.163**
Single Tier Pension – Potential Cost arising for the Council			7.900
Revised Potential Savings	13.309	15.003	23.063

2.17 The Council will need to generate £13.309 million of savings to balance the 2014/15 budget. Planned savings over the next three years total £51.375 million.

2.18 Savings in 2016/17 are higher as the Government plans to reform the current state pension into a single tier pension, from 2016. Therefore these additional costs have been included as a potential cost in 2015/16.

2.19 Officers are in the process of identifying proposals for detailed savings actions for 2014/15 with the outcome of this exercise due to be brought to members in October 2013.

Welfare Reform

2.20 In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012. The Council should ensure that it puts in place specific arrangements to address the implications of the Act.

2.21 The Council established a Welfare Reform Working Group in April 2012, to assess the impact of the changes on the community and on council services. The group is chaired by the Executive Director (Finance and Corporate Resources) and has representation from all Resources. Regular updates from the Working Group are taken to the Executive Committee.

2.22 A risk assessment workshop on Welfare Reform and the Council's Welfare Reform Action Plan, was held in July 2012, which informed management of the action plan. The workshop identified the top risks to the Council in relation to Welfare Reform and the mitigating actions which should be put in place.

2.23 Housing and Technical Resources was successful in a bid it submitted to the Scottish Government for funding to undertake a pilot project, to establish the readiness of residents to submit benefits claims online. Following the introduction of the Welfare Reform, the Department of Work and Pensions (DWP) requires that all claims are submitted via the internet. This funding consists of £0.156 million over a 9 month period.

2.24 The impact of Welfare Reform remains unclear on the net effect on workforce requirements. Work is underway looking at the additional burden placed on Council Services resulting from these changes and also areas where there may be a reduction.

2.25 Joint external meetings with DWP and other local authorities have continued throughout the year. A meeting on Welfare reform has also taken place between Council officers and staff from Citizen's Advice Bureau, East Kilbride Housing Association, Blantyre and South Lanarkshire Credit Union and Voluntary Action South Lanarkshire. This has the aim of developing better information sharing and working together in addressing the impacts of Welfare Reform.

2.26 A South Lanarkshire knowledge hub has been created to provide an online forum to share information, views, strategy, developments and be the catalyst for increased partnership working.

Action 2

3. Governance

3.01 In accordance with the Code of Audit Practice's requirements for the auditor's consideration of corporate governance arrangements, we have considered the following matters:

1. Corporate governance and systems of internal control, including risk management and internal audit.
2. Prevention and detection of fraud and irregularity.
3. Standards of conduct and arrangements for the prevention and detection of corruption.

Overall Governance Arrangements

3.02 South Lanarkshire Council operates within an established procedural framework that includes the Scheme of Delegation, Standing Orders, Standing Orders on Contracts, Financial Regulations and Committee Terms of Reference. This is supported by other policies and frameworks including the Council's Corporate Standards and Personnel Policies and Procedures.

3.03 Administration Services and Legal Services merged with effect from 1 April 2013. However there have been no other significant changes to the overall governance arrangements operating at the Council during 2012/13 and overall governance structures and activities are as expected.

3.04 As part of an ongoing continuous improvement and self-assessment process the Council has completed the first 3 year programme of Empower (the self-assessment Public Sector Improvement Framework toolkit (PSIF)) and will introduce the next programme during the latter part of 2013.

Annual Governance Statement

3.05 The Council is required to produce an Annual Governance Statement, which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'.

3.06 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. The main disclosures include the effectiveness of governance and committee frameworks, the work of internal audit and significant governance issues, including health and social care integration, police and fire reform and welfare reform. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

Accounting Systems and Systems of Internal Control

3.07 It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement.

3.08 The results of our work on systems of internal financial control were communicated in our Interim Management Letter to the Risk and Audit Scrutiny Forum in June 2013.

Actions 3 & 4

Prevention of Fraud and Corruption arrangements

3.09 Our responsibilities as auditors in relation to fraud are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement of the financial statements due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during our normal audit procedures.

3.10 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

3.11 The Council must complete the next NFI exercise by February 2014, investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and has taken steps to review its NFI arrangements. At 30 August 2013 the Council had completed 57% of matches with another 13% in progress. This represents good progress to enable the Council to meet its NFI obligation.

Internal Audit

3.12 We have liaised with Internal Audit during our interim and final audit visits to review their programme of work for the current financial year to establish progress against the internal audit plan and review a summary of their completed reports to determine the main issues being reported.

3.13 International Standard on Auditing (UK and Ireland) 610: "The auditor's consideration of the internal audit function" requires us to perform the following:

- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
- Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
- Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.

3.14 Our audit fee was agreed based on an expectation that we are able to rely on Internal Audit work for certification of grant claims, and follow up of Audit Scotland national reports. We are happy to report that we have been able to rely on the work of Internal Audit in the following areas:

- Non Domestic Rates Income grant claim;
- Housing and Council Tax Benefit Subsidy; and
- Follow up of Audit Scotland report "Scotland's Public Finances – Addressing the challenges".

3.15 We would like to take this opportunity to thank the Head of Internal Audit and the Internal Audit team for their assistance throughout the year.

4. Performance

Performance Management

4.01 2012/13 saw the Council's Plan, Connect, approved for the years 2012 to 2017. This provides the vision for the area, priorities for service delivery, objectives and values, covering all service areas.

4.02 Performance management is embedded within the organisation and detailed actions and reports on key plans and strategies as well as regular updates on progress with Connect and the Resource Plans published by each department are reported to the relevant committees. These reports are available on the Council and Committee websites.

4.03 Councillors are able to use the detailed information in these reports to meet their responsibilities in terms of challenge and scrutiny. The Council also publish annual performance indicators.

4.04 The Council has an electronic performance monitoring and reporting system (IMPROVe) which is used to track progress against the measures and targets set out in Connect, the Single Outcome Agreement and the plans published by each Resource every year. Reports drawn from IMPROVe are included in the quarterly updates to Committees.

Statutory Performance Indicators

4.05 The Accounts Commission has a statutory responsibility to specify information that all councils must publish about their performance in the form of statutory performance indicators. For 2012/13, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).

4.06 Auditors are required to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures the Council was able to demonstrate the basis for the SPIs reported.

4.07 We did not identify any issues in relation to the arrangements in place for gathering and reporting performance data.

National Performance Audits

4.08 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Report: Scotland's Public Finances - Addressing the Challenges (published February 2011).

4.09 The findings from our work will be reported to members in a separate report. Overall, the Council was able to demonstrate it had considered the report at the appropriate level and had taken the original recommendations into account in its strategy and related actions.

Local Area Network

4.10 An Assurance and Improvement Plan (AIP) for 2013-2016 was presented to the Risk and Audit Scrutiny Forum in June 2013. This is based on a shared risk assessment which is undertaken by a Local Area Network (LAN) made up of representatives of the main local government audit and inspection agencies. The aim of this process is to focus scrutiny activity where it is most needed.

4.11 The Council has sustained or improved its service performance overall, with inspection and audit reports in 2012/13 resulting in broadly positive reports. Scrutiny risks have reduced to 'No scrutiny required' in two of the assessment areas and one area was highlighted where further information was required (procurement). No significant scrutiny risks have been identified.

Appendices

Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	1.07	**Equal Pay** Due to the potential risk to the Council, Management should continue to actively manage any developments in respect of equal pay claims. This should include regular briefings for Members.	**Management Response:** Officers will provide on-going monitoring and management of claims, and provide briefings to members as appropriate. **Responsible Officer:** Head of Personnel **Implementation Date:** Ongoing
2	2.26	**Welfare Reform** The Council should continue to put specific arrangements in place to ensure that Welfare Reform impacts can be planned, coordinated, monitored and successfully addressed.	**Management Response:** The Welfare Reform action plan will continue to be developed and the actions progressed throughout the forthcoming period of welfare reform. **Responsible Officer:** Executive Director, Finance and Corporate Resources **Implementation Date:** Ongoing
3	3.08	**Review of Procurement Strategy** Review of Procurement Strategy – A review of procurement action plan and their implementation, was undertaken at the end of 2012. A questionnaire to assess opinion on the effectiveness of the implementation has been issued and responses collated into a report which will be considered by the Procurement Network in October 2013. The refreshed procurement strategy, explaining how the Council will deliver procurement will be presented to the Committee in October 2013.	**Management Response:** The agreement of the new procurement strategy in October and the presentation of the review outcome to the Procurement Network, will conclude this action. **Responsible Officer:** Head of Finance **Implementation Date:** October 2013
4	3.08	**Removal of Leavers from IT System** Five exceptions were found from a sample of forty five network leavers where an active user account existed. At interim a spreadsheet had been developed to capture leavers' data. This is being piloted in the Housing and Technical Resource at present and the Council should continue with plans to roll it out across other resources.	**Management Response:** Process has been rolled out. This will be verified as part of PwC's Follow up work in 2014. **Responsible Officer:** Head of IT & Head of Personnel **Implementation Date:** Implemented July 2013

Appendix 2 - Audit reports/outputs issued in 2012/13

Report Name	Report Date
Annual Audit Plan 2012/13	February 2013
Interim Management Letter 2012/13	March 2013
Follow up of prior year audit recommendations during the 2012/13 audit	May 2013
Various Grant Claims	June 2013 – September 2013
Scotland's Public Finances: Addressing the Challenges – a follow up Report	August 2013
Annual Audit Opinion on Financial Statements	September 2013
Annual Report to Members and the Controller of Audit	September 2013

Appendix 3 – ISA 260 Communications to those charged with governance

Communication Required under ISA 260	Reference/Comment
Engagement Letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	• We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.
Audit Approach and Scope	• This was set out within the Annual Audit Plan (reported to the Risk and Audit Scrutiny Forum in February 2013). There was one change to the audit approach set out within our audit plan. As required by auditing standards, there is a presumption that there is a risk of material misstatement due to fraud in revenue recognition and as a result we have recognised the risk of fraud in revenue recognition as an additional significant risk for the 2012/13 audit. This audit risk has been included in all of our public sector external audit plans for 2012/13 and is not specific to South Lanarkshire Council.
Materiality	• Contained in our Annual Audit Plan (reported to the Risk and Audit Scrutiny Forum in February 2013). Materiality communicated in our Annual Audit Plan was based on expected annual expenditure and therefore it was updated at our year end audit to reflect actual expenditure. Performance materiality during our year end audit was therefore in the region of £7.8 million.
Form and Timing of Communications	• Annual Audit Plan (reported to the Risk and Audit Scrutiny Forum in February 2013). • Interim Management Letter and Follow Up Report reported to the Risk and Audit Scrutiny Forum in June 2013). • Annual Report to Members and Controller of the Audit (reported to Executive Committee in November 2013).
Accounting Policies/Estimates/Disclosures	• Significant matters are included within this Report. • Significant estimates have been used in relation to revaluation of property, plant and equipment; PwC valuations experts have reviewed the assumptions used and we are satisfied with management's accounting treatment in the 2012/13 financial statements. Significant estimates have also been used in relation to the

	pension fund liability. We have reviewed the pension assumptions used and we are satisfied that these are within the ranges expected.
Correspondence with management on significant matters	• Discussed and resolved matters arising with management throughout the audit process.
Letter of Representation	• Signed by the Executive Director of Finance and Corporate Resources on 25 September 2013.
Other matters significant to the oversight of financial reporting process and material uncertainties relating to Going Concern	• None identified.
Related Parties	• Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	• Discussed fraud arrangements with the Risk and Audit Scrutiny Forum members throughout the year.
Material Weaknesses in Internal Controls	• Internal controls findings reported separately in our 'Interim Management Letter 2012/13'.