

South Lanarkshire Council

Report to those charged with governance

Annual Report to Members and the Controller of Audit for the year
ended 31 March 2014

Government and
Public Sector

26 September 2014

Contents

Code of Audit Practice

In May 2011 Audit Scotland issued a revised version of the 'Code of Audit Practice'. The purpose of the statement 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 this Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

A list of these reports is included at Appendix 3 to this report.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our audit plan to you in January 2014; we have reviewed the plan and have updated our audit strategy in response to the settlement agreed in February 2014 in respect of the majority of the equal pay claims lodged with the Employment Tribunal. Further details are set out on page 5.

Audit Summary

- We have completed our audit work and have issued an unqualified audit opinion on the Statement of Accounts on 26 September 2014.
- There was one key judgment which was required to be presented to those charged with governance's– further details are set out commencing on page 13 entitled Judgments and Accounting estimates.

Financial Statements

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2014 is **unqualified**.

We proposed a number of adjustments during the audit relating to disclosure matters in the 2013/14 financial statements. These have been processed by management in the final version of the financial statements. **There are no unadjusted misstatements.**

Management and auditors' responsibilities

Management responsibility

It is the responsibility of the Council and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and
- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the year ending 31 March 2014 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code)

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements

We are also required to review and report as necessary on other information published with the financial statements, including the explanatory forward, annual governance statement and the remuneration report.

Summary of financial performance

Financial performance

In 2013/14, as recorded in the comprehensive income and expenditure statement, the Council spent £1,090.319 million on the provision of public services. Income for the year totalled £1,002.527 million, resulting in an accounting deficit of £87.792 million on the provision of public services (2013: £8.085 million deficit).

The Council reached a settlement in respect of the Equal Pay claim with the claimants represented by Fox and Partners in February 2014: the £70.359 million cost to the Council is recognised in expenditure on public services and contributes in large part to the increased expenditure in 2013/14. This cost was anticipated and met from available Council reserves following agreement by Members.

The balance on the Council's General Fund was £13.387 million at 31 March 2014 to be carried forward into 2014/15. The overall movement in usable reserves including the Housing Revenue Account, Capital Receipts Reserve, and Repairs and Renewals Fund, was a reduction of £57.934 million in the year and reflected the circumstances outlined in the paragraph above.

Further details of the Council's financial performance can be found in the *Financial Standing* section of this report.

Please note that this report will be sent to Audit Scotland in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 8 October 2014. Attending the meeting from PwC will be Martin Pitt, Engagement Leader.

Audit approach

Our audit approach to the audit of the financial statements was set out in our Audit Plan presented to you in January 2014. It uses a range of techniques to obtain audit evidence and assurance and is based upon a thorough understanding of your activities.

Our audit approach was risk based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements.

Amendment to Audit Approach since presentation of our Audit Strategy

We have updated our audit strategy to reflect the settlement reached in respect of 3,044 equal pay claims. We have increased the risk of material misstatement due to the accounting treatment for the 1,021 claims lodged with the employment tribunal which have not yet been settled.

For all significant audit areas, we used a variety of audit techniques, including technology enabled audit techniques, to drive quality and insight. We reviewed the accounting systems and management controls operated by the Council only to the extent we consider necessary for the effective performance of our audit. However, where we have uncovered any significant deficiencies we have reported these to you with our recommendations for improvement.

We have summarised overleaf the significant risks we identified in our audit plan, the audit approach we took to address them and an update on the outcome of our testing.

Our response to significant risks

Risk	Categorisation	Audit approach	Outcome
<p>Risk of management override of controls</p>	<p>Significant</p>	<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. The current economic conditions may also increase fraud risk.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> test the appropriateness of journal entries using Computer Assisted Audit Techniques; <input type="checkbox"/> Test that expenditure had been recognised in the correct period; <input type="checkbox"/> Test the reasonableness of assumptions made by management in areas such as valuations applied to fixed assets, pensions and bad debt provisions <input type="checkbox"/> review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; <input type="checkbox"/> evaluate the business rationale underlying significant transactions; <p>and</p> <ul style="list-style-type: none"> <input type="checkbox"/> bring an element of ‘unpredictability’ into our work by reviewing balances below our materiality threshold. 	<p>We did not identify any issues to report to you as a result of our work</p>

Our approach to significant risks (cont.)

Risk of fraud in revenue recognition	Significant	<p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Council could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>We have considered this risk specific to sales, fees and charges. We have rebutted the risk of fraud in revenue recognition for financing and investment income, and for taxation and grant income.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"><input type="checkbox"/> obtain an understanding of key revenue controls;<input type="checkbox"/> evaluate and test the accounting policy for income recognition in relation to these income streams to ensure that it is consistent with the requirements of the Code;<input type="checkbox"/> test cut-off of sales, fees and charges; and<input type="checkbox"/> perform detailed testing of revenue transactions, focussing on the areas of greatest risk, including manual revenue journals	<p>We did not identify any matters to report to you as a result of our work.</p>
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Our approach to significant risks (cont.)

<p>Risk of fraud in expenditure recognition</p>	<p>Significant</p>	<p>For the purposes of the Council the risk of fraud in revenue recognition is also inverted to reflect the risk around misstatement of expenditure. In particular, management may face pressure to delivery within a reduced budget or conversely to utilise full budget allocations by year end. This may result in the misstatement of expenditure for the year.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"><input type="checkbox"/> review the controls put in place by the Council to control expenditure, including performance monitoring against key financial targets.<input type="checkbox"/> test cut-off, accruals and unrecorded liabilities procedures to ensure that expenditure has been recognised in the correct period in relation to when services were delivered. We also performed testing on expenditure transactions, focussing on the areas we consider to be of greatest risk, including manual expenditure journals.<input type="checkbox"/> review accounting estimates<input type="checkbox"/> test judgemental areas in relation to accruals and provisions; and<input type="checkbox"/> bring an element of ‘unpredictability’ into our work by reviewing the contracts approval process for lower value contracts which are not subject to the formal tendering process. We tested a sample of contracts to verify that the expenditure was authorised appropriately and there was evidence that competitive quotes were sought and best value was considered.	<p>We did not identify any matters to report to you as a result of our work.</p>
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Our approach to significant risks (cont.)

<p>Accounting treatment of equal pay claims</p>	<p>Significant</p>	<p>The Council agreed a settlement in February 2014 in respect of the 3,044 claims under the Equal Pay Act 2010 represented by Fox and Partners.</p> <p>A further 1,021 claims were lodged with the Employment Tribunal by June 2014: c. 200 existing claims represented by the trade unions, and a further 800 lodged after Fox and Partners settlement was agreed. These have been disclosed as a contingent liability in the notes to the financial statements.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"><input type="checkbox"/> verify the recognition of the settled equal pay claims as expenditure in 2013/14<input type="checkbox"/> Determine whether the liability for the unsettled claims meets the criteria for recognition as a provision, or is correctly recognised as a contingent liability.	<p>We can confirm that it is reasonable to disclose a contingent liability in respect of the unsettled pay claims, as claims relate to a later period than the settled claims and are at an early stage of the legal process. It cannot yet be certain whether claims are valid or the amount of a likely settlement, if any.</p>
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Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action and this report is part of that continuing communication with those charged with governance.

We have completed our audit and have **issued an unqualified audit opinion.**

Following our work on the financial statements we will also report on the Whole of Government Accounts Return submitted to Audit Scotland. We anticipate that this work will be completed by 30 September.

Accounting issues

Pension assumptions

Employees of South Lanarkshire Council participate in the Strathclyde Pension Fund which is part of Local Government defined benefit pension schemes. A full actuarial valuation was carried out at 31 March 2011 and has been updated at 31 March 2014 by Hymans Robertson (independent actuary). We understand that a full actuarial valuation based on data at 31 March 2014 will be performed in 2014.

During the year an amendment to IAS 19 became effective and has been adopted within the accounts for the year ended 31 March 2014. The effect of this amendment has resulted in the restatement of the 31 March 2013 accounts. We have reviewed the adjustments and the disclosure of the prior year restatement and concur with management's adjustments and the disclosure contained in the financial statements.

We have independently confirmed the pension assets and accuracy of the census data held by the pension funds as part of our audit procedures. We have also reviewed the key assumptions applied to the pension schemes valuations and compared these with our own actuarial specialists' expectations, which included benchmarking the assumptions against a range of other schemes with March year ends.

We note that the rate of increase in salaries (5.1%) is in the upper range of assumptions used by Local Government Pension Scheme employers, which range from 3.4% to 5.1%. The likely effect of salaries increasing +0.1% above CPI would be to increase pension liabilities by +0.5%.

Significant audit and accounting matters (cont.)

However, we confirm that the key assumptions applied to the pension scheme valuations, including the rate of increase in salaries, fall within our actuarial specialists' range of acceptable assumptions. There are no issues that we wish to bring to your attention as a result of our work.

Charitable Funds audit

For the first time in 2013/14 we are required as appointed auditors to provide an audit opinion on charitable Trusts registered with the Office of the Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as sole Trustee. The Council currently acts as sole Trustee for 81 charitable trusts.

Regulation 7 of The Charities Accounts (Scotland) Regulations permits charities that have a common purpose or shared management to prepare a single set of 'connected charities' accounts. In line with this guidance, and with the approval of OSCR, management has prepared 3 sets of connected charities accounts.

We noted that the charitable activity across all 81 charitable trust funds is low. The only income stream is from investments. £26,742 was paid out from the Loudon Bequest to local authorities in the West of Scotland to assist in financing holidays for the elderly. Charitable expenditure across the remaining charitable trust funds is very low. With such a low level of activity it should be considered whether the charitable trust funds are in fact meeting their original objectives.

Trust	Charitable expenditure (Grants and donations)	Income
South Lanarkshire Council Charitable Trusts	£35,944	£38,320
South Lanarkshire Council Educational Trusts	£3,123	£6,553
East Kilbride Information Technology Centre Trust	£nil	£82

Trust deeds for the connected charitable trust funds were not available for our review. The absence of such deeds which formally document the purpose of each of the Trusts creates the risk that funds could be expended for purposes that do not meet the charitable objects of the Trust. In addition, in the event of a challenge, the Trust may find it difficult to justify expenditure incurred.

Action Point 1: The trust deeds are the governing documents of the charity, and may place restrictions on how income or capital can be applied. Without trust deeds being available, there is a risk that expenditure does not meet the charitable objectives of the trust.

Significant audit and accounting matters (cont.)

As sole trustee of the connected charities, South Lanarkshire Council should liaise with the Office of the Scottish Charity Regulator (OSCR) and the Scottish Government to ascertain whether there is any possibility of rationalising the number of charities and determining their overall purpose with a view to reducing the administrative burden.

Misstatements and significant audit adjustments

We are required to tell you about all uncorrected misstatements we found during the audit, other than those which are clearly trivial.

We are pleased to advise that there are no uncorrected misstatements to report.

We have discussed a number of disclosure adjustments with management. The audited financial statements have been updated to reflect these.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the Statement of Accounts:

A contingent liability has been disclosed in the notes to the financial statements relating to unsettled equal pay claims. 1,021 claims were lodged with the Employment Tribunal at the date of audit, of which c. 200 form part of the same class action as those previously settled, and c. 800 were lodged after the settlement with claimants represented by Fox and Partners had been reached.

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:

Significant audit and accounting matters (cont.)

1. as the claims relate to prior periods of employment, the criteria of a past event is met;
2. the Council has previously settled equal pay claims and discussions with the trade unions representing the claimants are ongoing. As such, it is reasonable to expect that there may be some outflow of resources required to settle the liability; and
3. the unsettled claims are not considered comparable to the 3,044 claims already settled as they relate to a later period when a new pay structure had been introduced. Due diligence to verify the validity of the claims and discussions with the trade unions representing the claimants are ongoing. As such, any potential liability cannot be estimated reliably.

We are satisfied that the Council's potential liability in respect of the outstanding 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.

Management representations

The representation letter was signed by management on the 26 September 2014. A draft of the representation letter that we asked management to sign is attached in Appendix 4.

Governance and Internal Control

Governance structure

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility the Council has put in place arrangements for the governance of its affairs, through its sub-committees. The committee structure remained unchanged during 2013/14.

The Council and its sub-committees are governed by its Standing Orders, a Scheme of Delegation, Financial Regulations and Committee Terms of Reference. These are supported by other policies and frameworks including the Council's Corporate Standards and Personnel Policies and Procedures.

Statement of Governance and Internal Control

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. In its statement, the Council has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Council's control 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.

Risk management

The Council has in place a Risk Management Strategy which is driven by the Council's objectives, supported by Resource plan objectives. Risks are assessed at both strategic and operational levels. A standardised risk register is used across the resources.

The strategy outlines roles and responsibilities, and the risk management principles adopted by the Council, and the role of Internal Audit in tailoring its annual work plan to focus on the key areas of risk. The Corporate Management Team is responsible for monitoring the application of the Risk Management Strategy across the Resources. The Corporate risk register is reviewed annually by the Council.

Shared Risk Assessment

The Scottish Government's response to the Crerar report in 2007 was to simplify the approach to delivering local government scrutiny. As a result, scrutiny bodies that engage with local government established a shared risk assessment of the risks in

Governance and internal control (cont.)

each Council and developed a range of proportionate approaches in response to the risk assessment. A Local Area Network (“LAN”) of local audit and inspection representatives undertake a shared risk assessment for each local authority in Scotland, to identify targeted, risk-based scrutiny. This results in each Council receiving an annual Assurance and Improvement Plan (“AIP”).

In May 2014, Audit Scotland published the Council’s most recent AIP. No requirement for specific scrutiny was identified during the shared risk assessment process.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Annual Governance Statement. We consider that appropriate governance arrangements and reporting are in place.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and for putting 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 Statement of Accounts and our review of the annual governance statement.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of the Council.

Internal audit

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;

Governance and internal control (cont.)

- 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.

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. We are happy to report that we have been able to rely on the work of Internal Audit in the following areas:

- Follow up of Audit Scotland reports on Arm's Length External Organizations, and Major Capital Investment in Councils

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

Based on audit work performed we consider the Internal Audit function within the Council to be appropriate for the needs of the Council.

Summary of significant internal control deficiencies

We are required to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

We did not identify any significant deficiencies in internal control in the course of our audit work. Low risk findings from our audit work are reported in **Appendix 2**.

Financial Standing

2013/14 Financial Performance

The Council reported a deficit of £87.792 million on the provision of services in 2013/14, compared to a surplus of £8.085 million in 2012/13. This deficit reflects the impact of a number of technical accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Council's General Fund balance decreased by £17.331 million during 2013/14. This decrease is due to a number of factors including the equal pay settlement agreed in February 2014. The Council's General Fund and Housing Revenue Account financial performance for 2013/14 is summarised in the table below.

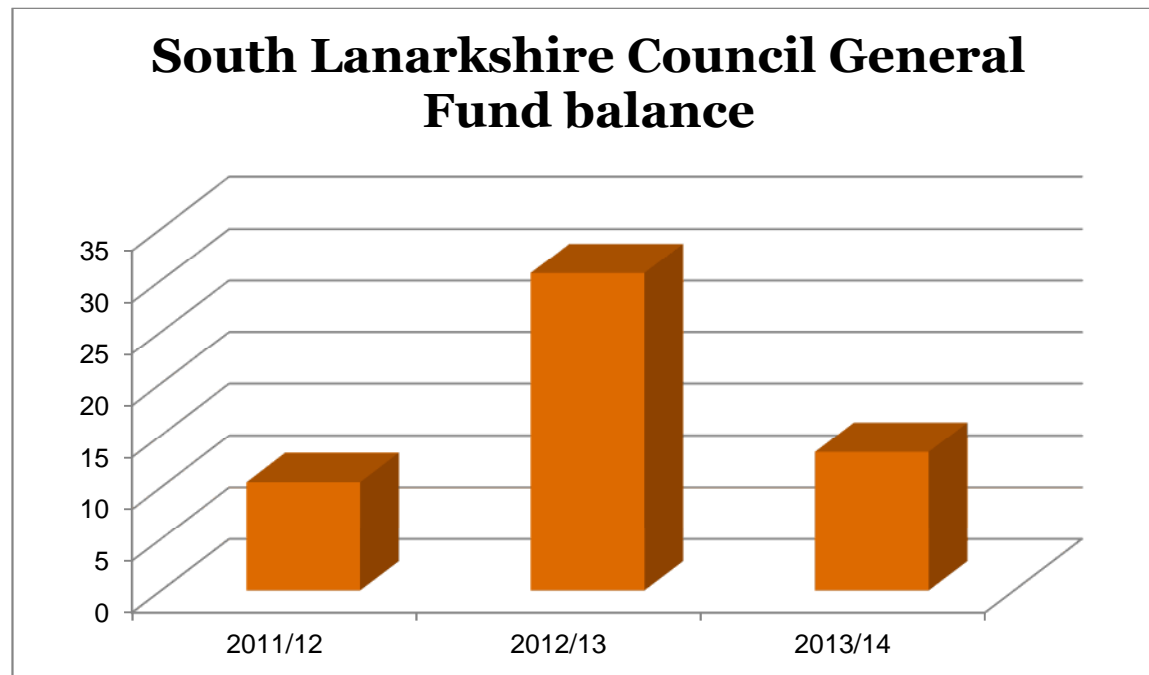
	2013/14 £000		2012/13 (restated) £000	
Net Cost of Services	714,011		675,199	
Taxation and Non-Specific Grant Income	(696,006)		(734,456)	
Other operating expenditure	(3,566)		3	
Other Income and Expenditure (Financing and Investment)	73,353		67,339	
(Surplus)/Deficit on Provision of Services	<u>87,792</u>		<u>8,085</u>	
	General Fund	HRA	General Fund	HRA
Surplus/(Deficit) on Provision of Services	(75,380)	(12,412)	(3,183)	(4,904)
Adjustments between accounting basis and funding basis under regulations.	15,077	11,179	10,419	2,373
Net Increase/(Decrease) before Transfers to Reserves	(60,303)	(1,233)	7,238	(2,531)

Financial performance

Transfers to/(from) Reserves	42,972	-	13,010	-
Increase/(Decrease) in Year	(17,331)	(1,233)	20,248	(2,531)
Opening Balance	<u>30,718</u>	<u>7,288</u>	<u>10,470</u>	<u>9,819</u>
Closing Balance	<u>13,387</u>	<u>6,055</u>	<u>30,718</u>	<u>7,288</u>

Reserves

The Council has a general fund balance of £13.387 million as at 31 March 2014, a decrease of £17.331 million from the prior year. The movement in the general fund balance in recent years can be seen in the graph below.



The variance year-on-year is primarily due to the impact of the equal pay settlement of £70.359 million. The deficit on the provision of services was £75.380 million in 2013/14 compared to £3.181 million in 2012/13. £12.227 million was transferred from the Capital Fund to the General Fund in 2012/13 in order to give the Council greater financial flexibility.

Revenue budget 2014/15

The Council approved its 2014/15 revenue budget of £672.400 million (2013/14 budget £664.791 million) in February 2014.

The grant allocation from the Scottish Government for 2014/15 has been set at £544.700 million, of which £298.920 million is Non Domestic Rates Income and £245.622 million is the General Revenue Grant. The grant allocation from the Scottish Government currently meets over 80% of the Council's expenditure each year.

Efficiency savings of £13.309 million have been incorporated into the revenue budget for 2014/15. The largest area of increase in expenditure relates to employee costs, with budgeted expenditure of £352.935 million in 2014/15, compared to £348.348 million budgeted in 2013/14.

Capital Expenditure

The Council had a general fund capital programme budget for 2013/14 of £127.808 million (2012/13 – £116.016 million). The 2013/14 actual expenditure was £125.299 million. This capital expenditure was funded from a variety of sources as follows:

	Funding £'000
Prudential borrowing	100.755
General Capital Grant (Scottish Government)	19.284
Other capital receipts	5.260
TOTAL	<u>125.299</u>

The underspend in 2013/14 is due to slippage caused by project delays. The Financial Resources Scrutiny Forum is responsible for monitoring capital spend and continues to monitor project activity.

Welfare Reform

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.

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.

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.

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

Financial standing

Based on our audit work performed, we have no concerns we wish to bring to your attention about the financial standing of the Council.

Best Value and Performance

Performance management

The Council's plan 'Connect' provides the vision for the area, priorities for service delivery, objectives and values for 2012-2017. It is supported by Resource plans which are published by each department.

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 are reported to the relevant committees. These reports are available on the Council and Committee websites.

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.

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

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 2013/14, the Accounts Commission required Councils to report on a wide range of indicators set out in the Local Government Benchmarking Framework.

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

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

National Performance Audits

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to local authorities. We have a duty to follow up with Councils on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a local level.

As part of our 2013/14 audit procedures we have reviewed the Council's response to the following reports:

- Health inequalities in Scotland (December 2012);
- Major Capital Investment in Councils (March 2013); and
- Arm's Length External Organisations: Are you getting it right? (June 2011)

At the request of Audit Scotland, the results of our targeted follow up of 'Arm's-Length External Organisations: Are you getting it right?' were reported to the Risk and Audit Scrutiny Forum with our Interim Management Letter in July 2014. We found that governance arrangements in place for each arm's length external organisation ('ALEO') were appropriate for the size and nature of the charity and for services delivered. Governance arrangements were **'better'** or **'advanced'** in all areas reported.

Significant trading operations

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period.

Facilities Management did not meet this statutory requirement in 2013/14 with a deficit of £22.390 million recorded. This is due to exceptional expenditure, being the settlement of the equal pay claims. Removing the effect of the equal pay claims, a small surplus of £0.348m was recorded. Facilities Management recorded a surplus in 2012/13 and in 2011/12.

The Council operates 4 other trading services, all of which recorded a surplus in 2013/14: Fleet Services (£0.289 million), Grounds Maintenance (£0.545 million) and Roads (£2.005 million) and Property Service (£4.289 million).

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised in Appendix 6.

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Council. These include:

- A confidential reporting (whistle blowing) policy;
- A range of financial controls such as segregation of duties and authorisation requirements; and
- Policy to combat fraud and corruption.

National Fraud Initiative

The Council has participated in the 2013/14 National Fraud Initiative data matching program (NFI). The 2013/14 program compares Council Tax records to the electoral roll to identify addresses where the single person's discount on council tax may be claimed fraudulently. This exercise returned 3877 matches, which are currently being reviewed by Internal Audit and Northgate (an external organisation). The Council is due to report on the 2013/14 NFI results in early 2015.

Appendix 1: Summary of uncorrected misstatements

There are no uncorrected misstatements to report

Appendix 2: Action plan

Action point reference	Finding	Management Response/Responsible Officer/Due Date
1	<p>The trust deeds are the governing documents of the charity, and may place restrictions on how income or capital can be applied. Without trust deeds being available, there is a risk that expenditure does not meet the charitable objectives of the trust.</p> <p>As sole trustee of the connected charities, South Lanarkshire Council should liaise with the Office of the Scottish Charity Regulator (OSCR) and the Scottish Government to ascertain whether there is any possibility of rationalising the number of charities and agreeing their overall purpose with a view to reducing the administrative burden.</p>	<p>Due to the age, and nature of these trusts the original documentation cannot be sourced for many of these trusts, however the purpose and objectives of the trusts are known and met.</p> <p>We agree to contact OSCR with regard to agreeing the overall purpose the trusts.</p> <p>Head of Finance 31 March 2015</p>
2	<p>Four exceptions were noted from a sample of 25 starters tested in the year, whereby new employees were apparently not added to the payroll on a timely basis after commencing employment (ranging from 23 to 78 days). This was due to delays in the Resources notifying Payroll of new employees starting.</p>	<p>All resources will be reminded of the importance of advising payroll of new starters timeously.</p> <p>Also, as part of management reporting, new starts notified to payroll later than target times will be highlighted.</p> <p>Head of Finance 31 October 2014</p>

Appendix 3: Audit reports issued in 2013/14

Report name	Report date
External audit plan for the year ending 31 March 2014	February 2014
Interim Management Letter including follow up of prior year audit findings and review of Council response to National Performance Audit Report on arm's length external organisations	June 2014
Annual Audit Opinion on Financial Statements	September 2014
Annual Report to Members and the Controller of Audit	September 2014

Appendix 4: Letter of representation

Representation letter – audit of South Lanarkshire Council’s (the Authority) statement of accounts for the year ended 31 March 2014

The Authority is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together “the group”).

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority and the group give a true and fair view of the state of affairs of the Authority and group as at 31 March 2014 and of the surplus and cash flows of the group for the year then ended have been properly prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

Subsequent references in this letter to “the Statement of Accounts” refer to both the statement of accounts of the authority and the consolidated statement of accounts of the group.

I acknowledge my responsibilities as Head of Financial Services for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the authority and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the statement of accounts.
- Significant assumptions used by the authority and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the statement of accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United

Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other matters, including minutes of the authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the authority's and the group's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's and the group's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the statement of accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the authority and group's statement of accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing statement of accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority and the group conducts its business and which are central to the authority's and the group's ability to conduct its business or that could have a material effect on the statement of accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the statement of accounts.

Related party transactions

I confirm that we have disclosed to you the identity of the authority and group's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority and the group have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or for the group's benefit or any other party's benefit.

- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or the group or any associated company for whose taxation liabilities the authority may be responsible.

Retirement benefits

- All retirement benefits that the authority and the group is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's and the group's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

	Strathclyde Pension Fund
	31 March 2014
Financial assumptions:	
Discount rate	4.3%
Rate of increase in salaries	5.1%

Rate of increase in pensions	2.8%
Rate of Inflation (CPI)	2.8%
Mortality assumptions:	
<i>Longevity at 65 for current pensioners:</i>	
Men	21.0
Women	23.4
<i>Longevity at 65 for future pensioners:</i>	
Men	23.3
Women	25.3
Long-term expected rates of return on:	
Equities	4.3%
Bonds	4.3%
Property	4.3%
Cash/current assets	4.3%

- The authority participates in the Scottish Teachers' Superannuation Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Assets and liabilities

- The Authority and the group have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the statement of accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

- The Authority and the group has satisfactory title to all assets and there are no liens or encumbrances on the Authority's and the group's assets, except for those that are disclosed in the statement of accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the yearend have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the statement of accounts.

Using the work of experts

I agree with the findings of the Estates team, experts in evaluating the value of the authority's social housing dwellings, other land and buildings, community assets and surplus assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the statement of accounts and underlying accounting records. The authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

**Letter of Representation
(cont.)**

.....

Paul Manning, Executive Director (Finance and Corporate Resources)

Date

Appendix 5: Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships between PwC and the Authority

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Group.

- Audits of Clyde Valley Learning and Development Trust, Lanarkshire Community Justice Association, Lanarkshire Valuation Joint Board, South Lanarkshire Council Charitable Trusts, South Lanarkshire Educational Trusts, and the East Kilbride Information Technology Centre Trust.

Audit independence (cont.)

Fees

Our fees for the audit of South Lanarkshire Council for the year ended 31 March 2014 were £528,846. No non-audit services were provided. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We have asked the Risk and Audit Scrutiny Forum to consider the matters in this document and they have agreed with our conclusion on our independence and objectivity.

Appendix 6: Risk of Fraud

Auditors' responsibility

Our objectives 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 due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

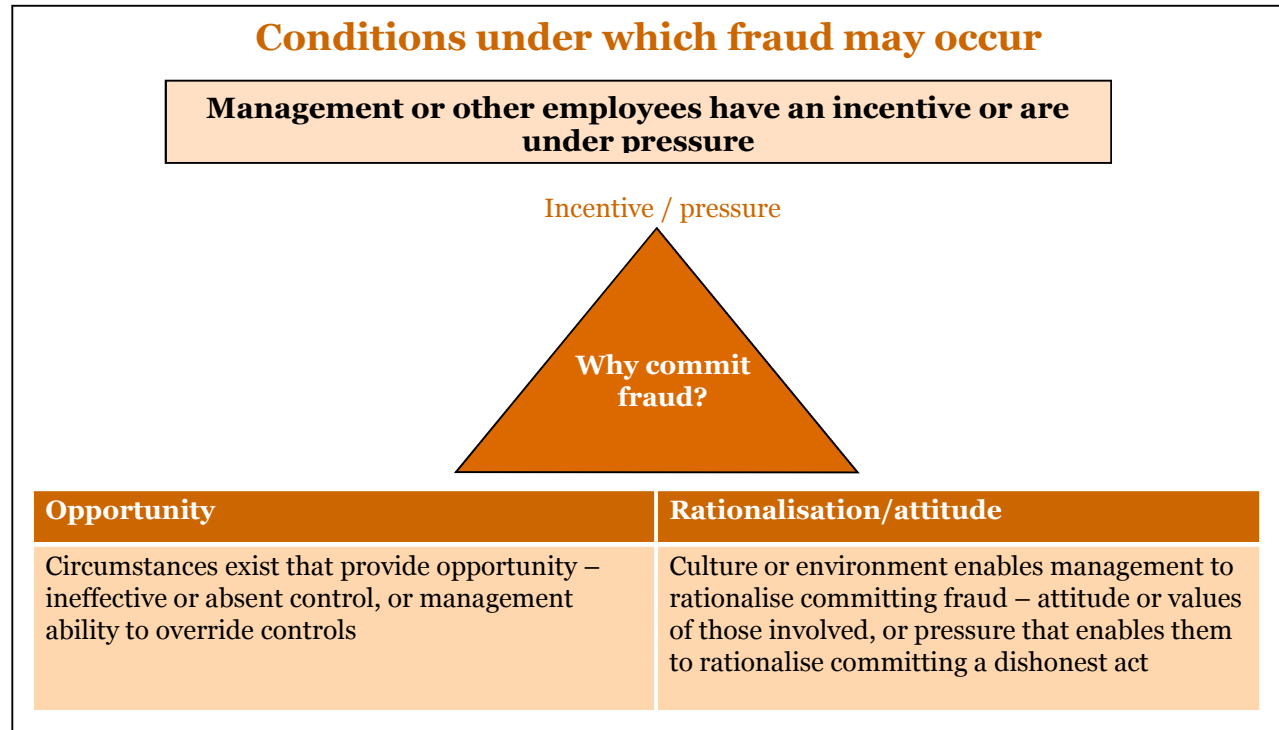
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the those Charged with Governance

The responsibility of the Risk and Audit Scrutiny Forum as part of their governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.





In the event that, pursuant to a request which South Lanarkshire Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and 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 South Lanarkshire Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, South Lanarkshire Council discloses 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.

This document has been prepared only for South Lanarkshire Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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