
South Lanarkshire Council

Year ended 31 March 2013

Risk and Audit Scrutiny Forum

17 September 2013



Table of Contents

Section 1: Audit Process and Audit Opinion	3
Section 2: Summary of key adjustments and judgements	4
Section 3: Completion timetable.....	7
Section 4: Likely content of our 2012/13 Annual Report to Members	8
Section 5: Other matters: required communications to those charged with Governance.....	9
Appendix 1: Independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission for Scotland.....	11

Section 1: Audit Process and Audit Opinion

Audit Process

- 1.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The first draft of the financial statements was prepared to a high standard with no significant omissions or issues identified during the audit. The working papers provided were of a good standard, reflecting our deliverables listing issued to management. We would like to formally express our thanks to the finance team for producing a number of detailed working paper files in support of the financial statements.
- 1.02 We believe an efficient audit process was achieved and an effective working relationship continues to exist with your officers.

Adjustments to Draft Statements

- 1.03 A number of adjustments to the format of, and figures within the financial statements have been discussed during the course of our audit. These reflect matters of disclosure only.
- 1.04 Following our clearance meeting we understand that all agreed adjustments are being processed for our final review of the financial statements. The statements are due to be finalised and signed on 26 September 2013. Set out in Section 3 is the financial statement completion timetable.

Issues Identified and Reporting

- 1.05 During the course of our audit we have identified a number of issues that we are required to report upon formally. Our more significant financial statement findings are discussed within this report and may be included within the Annual Report to Members. An indication of these matters is included in Section 4.

Audit Opinion

- 1.06 Our Audit Opinion (included in draft at Appendix 1) is unqualified.

Section 2: Summary of key adjustments and judgements

- 2.01 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 January 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	Key Audit Areas Reviewed
Management override of controls	<p>As reported in our annual plan, in any organisation, management may be in a position to override the financial controls established by management. 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 (as it could link to a possible fraud) and adapt our audit procedures accordingly.</p> <p>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 will incorporate unpredictability, which includes testing of financial areas, such as the income and expenditure account and also on-financial areas, such as related party disclosures. We have also confirmed that the Council has appropriately commenced its review of the 2012/13 NFI exercise.</p> <p>We found no matters which we considered to be management override of controls.</p>
Budgetary control	<p>As with local authorities nationally, the Council faces a range of challenges including the identification of saving areas, effective budgetary control and financial management.</p> <p>We identified this as an elevated risk at the planning stage. Our update of the budgetary process showed that the Council's reorganisation is now fully reflected in the budget planning process.</p> <p>There were no weaknesses identified as part of this review and follow up of prior year findings.</p>
Risk of fraud in revenue and expenditure recognition	<p>There is a rebuttable presumption in International Standards on Auditing (UK&I) to consider 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.</p> <p>Our year end substantive testing did not identify any adjustments in respect of either revenue or expenditure recognition.</p>

Area	Key Audit Areas Reviewed
Contingent Liabilities – Equal Pay	<p>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.</p> <p>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 further court rulings, the Council has entered exploratory discussions with the claimants' solicitors, Fox and Partners and a most recent Employment Tribunal hearing has been delayed. The latter points were made public in a joint press announcement on 28 August 2013.</p> <p>Given this information we have consider 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:</p> <ol style="list-style-type: none"> 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 <p>When we examine the conditions above:</p> <ol style="list-style-type: none"> 1. as the claims relate to prior periods of employment, the criteria of past event is met; 2. 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 3. at this stage there has been no agreement on the comparators 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. <p>We have made suggested improvements to the equal pay contingent liabilities note in the financial statements, to ensure that it is clear and balanced. This should continue to be updated to reflect any changes up to the date of signing the accounts.</p> <p>We are satisfied that the Council's potential liability in respect of equal pay claims should be disclosed as a contingent liability and at this stage as there is insufficient evidence to reliably estimate the cost to allow a provision to be recognised. Full disclosure of the current circumstances should be made including any developments prior to the accounts signing date.</p>

Area	Key Audit Areas Reviewed
Reserves	<p>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 and a paper presented to the Executive Committee in February 2013 states 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 13/14 to 14/15 and a further £15 million in 2015/16.</p> <p>The Council should continue to ensure that it continues to have in place a clear reserves strategy and necessary reserves are available to ensure ongoing business resilience and flexibility.</p>

Section 3: Completion timetable

Date of Action	Agreed Action	Responsibility
Financial Statements		
24 September	Produce amended version of Financial Statements for review, reflecting agreed financial and disclosure adjustments	SLC
25 September	Complete review of amended Financial Statements	PwC
26 September	Receipt of final signed financial statements for PwC to sign	SLC
26 September	Signing of financial statements and submission to Audit Scotland	PwC
Annual Report to Members and the Controller of Audit		
17 September	RASF Meeting – Financial Statement Presentation	PwC
18 September	Draft Annual Report submitted to Management for discussion and agreement	PwC
24 September	Comments on Draft Annual Report to Members from Management	SLC
26 September	Finalisation of Annual Report to Members and Controller of Audit	PwC
6 November	Executive Committee meeting – presentation of Annual Report to Members	PwC / SLC

Section 4: Likely content of our 2012/13 Annual Report to Members

Financial Statements and Audit Opinion	Use of Resources
<ul style="list-style-type: none"> • Audit Opinion • Audit Approach • Audit Process • Misstatements and significant audit adjustments • Areas of audit focus and significant accounting issues identified 	<ul style="list-style-type: none"> • 2012/13 Financial Performance • Capital expenditure • Trading operations • Designing better services • Reserves • Revenue Budget 13/14
Governance	Performance
<ul style="list-style-type: none"> • Overall Governance arrangements • Annual Governance Statement • Accounting systems and systems of internal control • Follow up of outstanding recommendations • Prevention of fraud and corruption arrangements 	<ul style="list-style-type: none"> • Performance Management • Statutory performance indicators • National performance audits – National Performance Report: Scotland's Public Finances

Section 5: Other matters: required communications to those charged with Governance

The following table contains communication required under ISA 260 (revised and re-drafted) “Communication with those charged with governance”.

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	There are no uncorrected misstatements to report from our 2012/13 audit. In addition, there are no significant corrected misstatements that we believe should be brought to your attention.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. There are no matters in respect of these that we require to bring to your attention.
Significant qualitative aspects of the Council’s accounting practices and financial reporting, management’s judgements and accounting estimates	Significant accounting estimates have been used in calculating the provision for pensions and similar obligations. As part of our testing we have agreed that the assumptions used in calculating these provisions appear reasonable. No other significant judgments or accounting estimates were required in the preparation of the financial statements.
Deficiencies in the internal control environment	<p>The purpose of the audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.</p> <p>As part of our interim audit procedures we also submitted our Interim Management Letter to you, dated 28 March 2013. This reported one ‘low’ risk and one ‘high’ risk recommendation. This was reported to the Risk and Audit Scrutiny Forum on 18 June 2013.</p>

Requirement	Delivery of requirement
Details of material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of the Council to continue as a going concern.
Significant difficulties encountered during the audit	We did not encounter any significant difficulties during our audit.
Confirmation of audit independence	We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Council 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.

Appendix 1: Independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission for Scotland

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

We audited the financial statements of South Lanarkshire Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Authority and Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the authority-only Housing Revenue Account Income and Expenditure Statement, the Non-Domestic Rates Income Accounts Statement, Council Tax Income Accounts Statement and the related notes. The financial reporting framework that has been applied in their preparation is 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 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for my report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report on by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or

- we have not received all the information and explanations we require for our audit; or
- the Statement of Governance and Internal Control does not comply with the 2012/13 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

PricewaterhouseCoopers LLP
Glasgow
26 September 2013

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

This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.