Agenda Item
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South Lanarkshire Council

Annual report to Those Charged with Governance and the Controller of Audit

Year ended 31 March 2016

September 2016

PricewaterhouseCoopers LLP
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South Lanarkshire Council
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29 August 2016

Ladies and Gentleman,

We are pleased to enclose our report to the South Lanarkshire Council in respect of our audit for the year ended 31 March 2016. The primary purpose of this report is to communicate the 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 March 2016. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 7 September 2016. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are completion procedures and receipt of management letter of representation. We will provide an oral update on these matters at the meeting on 7 September 2016.

We look forward to discussing our report with you. Attending the meeting from PwC will be Martin Pitt and Gillian Collin.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

Section 1. Executive summary

Introduction

This report sets out the significant findings from our audit of South Lanarkshire Council ("the Council") for the year ended 31 March 2016. We presented our plan to the Risk and Audit Scrutiny Forum in March 2016 setting out the focus of our audit; we have reviewed the plan and concluded that it remains appropriate.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing ('ISAs') (UK and Ireland)) and the Code of Audit Practice ('the Code').

The Code explains how external auditors should carry out their functions under the Local Government (Scotland) Act 1973. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an *unqualified audit opinion* on the financial statements on 7 September 2016. The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Approval of the statement of Accounts by the Executive Committee and signing of the letters of representation by the S95 Officer; and
- PwC completion procedures including subsequent events review.

Financial Statements

As a result of our work, we proposed a number of disclosure adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

We found that the draft financial statements and accompanying working papers were of a high standard and accounting records were appropriately maintained.

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 2016 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).

Auditors' responsibilities

Our statutory responsibilities require us 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:

- give a true and fair view of the financial position of the Council and its expenditure and income for the year;
- were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the management commentary 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 annual governance statement and the remuneration report.

Financial performance

In 2015/16, as recorded in the comprehensive income and expenditure statement, the Council spent £1,071.393 million on the provision of public services. Income for the year totalled £1,059.701 million, resulting in an accounting deficit of £11.692 million on the provision of services (2015: £6.970 million surplus).

The balance on the Council's General Fund was £32.967 million at 31 March 2016 to be carried forward into 2016/17, an increase of £15.419 million in the year. The overall movement in usable reserves including the Housing Revenue Account, Capital Receipts Reserve, and Repairs and Renewals Fund, was an increase of £15.926 million in 2015/16, compared to an increase of £8.392 million in useable reserves during 2014/15. This increase to reserves in 2015/16 primarily reflected a contribution which would be used to offset savings in 2016/17.

The Council has budgeted to achieve savings of £43.081 million in 2016/17, including efficiency savings. Further details of the Council's financial performance can be found in the Financial Standing section of this report.

Please note that copies of this report will be sent to Audit Scotland in accordance with their requirements.

We thank the management and staff of the Council for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

Our audit approach to the audit of the financial statements was set out in our Audit Plan presented to the Risk and Audit Scrutiny Forum in March 2016.

Our audit approach was risk based, informed by a sound understanding of the operations of the Council and an assessment of the risks associated with the financial statements. We have reviewed the risks set out in our Audit Plan and considered whether there is any change to our assessment of the risk of material misstatement. On the basis of this assessment, there have been no changes to our approach.

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Risk	Categorisation	Results of work performed
Management override of controls 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. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	We performed procedures to: • test the appropriateness of journal entries using Computer Assisted Auditing Techniques; • test the reasonableness of assumptions made by management in areas such as valuations of fixed assets, pensions and bad debt provisions; • review accounting estimates for bias and evaluate whether they represent a risk of material misstatement due to fraud; • bring an element of 'unpredictability' to our work by 1) comparing the Council's provision balances with those of other local authorities to assess reasonableness and completeness; and 2) perform additional targeted testing over Council tax deductions. **We did not identify any matters to report to you as a result of these procedures.**

Risk	Categorisation	Results of work performed
Risk of fraud in revenue (non-grant funding) recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.	Significant	We have considered this risk specific to fees and charges. We have rebutted the risk of fraud in revenue recognition for financing and investment income, and for taxation and Scottish Government grant income. We performed procedures to: • obtain an understanding of key revenue controls; • 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; • test cut-off of sales, fees and charges, and • perform detailed testing of manual revenue journals. **We did not identify any matters to report to you as a result of these procedures.**
Risk of fraud in expenditure recognition For the purposes of the Council the risk of fraud in revenue recognition is more sensibly inverted to reflect the risk around misstatement of expenditure. There is a risk that the Council could adopt accounting policies or treat expenditure transactions in such a way as to lead to material misstatement in the reported expenditure position to ensure budgets are achieved.	Significant	We performed procedures to: • evaluate and test the accounting policy for expenditure recognition to ensure that this is consistent with the Council's accounting policies; • perform detailed testing of expenditure journals; • perform testing over cut-off and unrecorded liabilities; • review accounting estimates for expenditure e.g. accruals and provisions to ensure that they are accounted for on an accurate basis and in the proper period; and • perform detailed testing over expenditure transactions. **We did not identify any matters to report to you as a result of these procedures.**

Risk	Categorisation	Results of work performed
Property Valuations The Council has a significant property portfolio on its balance sheet which was valued at £1,445 million at 31 March 2015. Given the quantum of this figure, and the number of assumptions used to determine the valuation. PwC's policy is to treat this as an elevated risk. However, we do not have any specific concerns over management's approach to property valuation.	Elevated	We have reviewed the valuation basis adopted for each category of property to ensure it is in compliance with the Code of Practice for Local Authority Accounting. We have tested a number of individual assets to ensure that the valuation has been undertaken in accordance with policy and that the underlying data used is accurate And we reviewed the useful economic lives attached to a sample of assets to ensure that it is an appropriate basis to calculate depreciation on. **Through our testing, one asset required an adjustment to its useful life to reflect the fact that the building is due to be demolished within the next financial year. This adjustment was accepted by the Council.**
Health & Social Care – Integration Joint Board accounting arrangements The Council entered into an Integration Joint Board with NHS Lanarkshire for the delivery of the Health and Social Care Integration legislation. These new legal structures and governance arrangements came into place during 2015-16 for the first time, and will therefore be required to be accounted for accurately.	Elevated	We performed a full external audit of the Integration Joint Board's financial statements, ensuring that they were prepared in accordance with the Code of Practice for Local Authority Accounting. We considered the preparation of the accounts and the treatment of the IJB accounts in the Council's group accounts. **We did not identify any matters to report to you as a result of these procedures.**
Wider Scope Audit Risk – Financial Sustainability There is unprecedented financial pressure on local government in Scotland as a result of ever increasing demand during a period of financial austerity in UK public services. This is leading to Councils across the country finding it increasingly difficult to bridge budget gaps through efficiency savings and service reductions. As a result there is an increasing risk that financial statements could be manipulated through manual transactions to present a financially sustainable position.	Elevated	During the interim visit we built our understanding of the 2015/16 financial performance and tailored our substantive testing programme to reflect the areas of risk such as cut off, provisioning and unrecorded liabilities. We reviewed management's financial plans going forward and considered management's arrangements to manage its future financial position through identification of savings proposals and income generating initiatives. **We did not identify any matters to report to you as a result of these procedures.**

Materiality

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	**£10,707,820**
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	**£8,030,865**
De-minimus posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a 'de-minimus' or 'clearly trifling' amount	**£250,000**

In our audit plan in March 2016 we communicated the materiality set for our audit planning purposes. Overall materiality was set at 1% of total expenditure for the year ended 31 March 2015 at £1,023m; performance materiality was set at £7,676,273 and the de-minimus posting level at £250,000.

Overall materiality and performance materiality were updated before commencing our audit procedures to the levels set out above based on the draft financial statements for the year ended 31 March 2016.

Materiality was set to direct the overall audit strategy and to assess the impact of any adjustments identified. Overall materiality was set at 1% of total expenditure for the year ended 31 March 2016. Performance materiality was set at 75% of overall materiality.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We have applied a de-minimus level of £250,000 which we have assessed as clearly trivial. This was agreed with the Risk and Audit Scrutiny Forum upon submission of our annual audit plan and the level has not changed from our audit plan.

We have completed our audit, subject to the following outstanding matters:

- Approval of the statement of Accounts and letters of representation; and
- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters and approval of the financial statements we expect to issue an unqualified audit opinion.

As part of our work on the financial statements we will also report on the Whole of Government Accounts Return submitted to the National Audit Office. This work will be submitted in accordance with the deadline of 30 September 2016.

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. There are no unadjusted misstatements to report.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. 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 financial statements have been considered. From our review of accounting policies and our substantive testing we consider that the accounting policies are appropriate and have been complied with for the 2015/16 financial statements.

Pension assumptions

Employees of the Council participate in the Strathclyde Pension Fund which is a local authority defined benefit pension scheme. In order to ascertain the value of scheme assets and liabilities attributable to the Council, an actuarial valuation is conducted on an annual basis by an independent firm of actuaries, Hymans Robertson. In the financial year 2015/16 the Council recognised a pension liability of £460.391 million (2014/15: £634.813 million).

The pension liability held by the Council is based on a number of assumptions made by the actuary. We have outlined the principal assumptions applied in arriving at this estimate along with PwC's expected ranges in the following table:

Table 1: Pension assumptions

Pension assumption	Actuary assumptions	PwC expected range
Pension increase rate	2.20% (1.0% below RPI inflation)	0.80% - 1.20% below RPI (i.e. 2.00% - 2.40%)
Salary increase rate	4.20%	The salary increase assumption has been set to be consistent with the most recent formal valuation. As at 31 March 2015, the long term pay growth assumption is RPI plus 1.0% p.a. An additional allowance has also been made for promotional salary increases. This is in line with our actuarial specialist's expectations.
Discount rate	3.50%	3.35% - 3.70%
Retail price index	3.20%	2.80% - 3.25%

Based on our work performed we have concluded that the assumptions applied are reasonable.

Charitable Funds audit

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 80 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.

Trust	Charitable expenditure (Grants and donations)	Income
South Lanarkshire Council Charitable Trusts	£5,245	£7,574
South Lanarkshire Council Educational Trusts	£1,955	£1,857
East Kilbride Information Technology Centre Trust	£0	£106

We noted that the charitable activity across all 70 charitable trust funds is limited. The only income stream is from investments and the sale of investments. Total expenditure equalled £7,200 in the year.

Points raised in the prior period
As reported in the prior year, it was noted that there is a lack of formalised trust deeds for the charities. This reflects the age of some of these Trusts which can date back over one hundred years. Currently there are no formal processes in place for determining who is eligible to receive bequest payments due to the age of the trusts. Without trust deeds and policies regarding bequest payments being available, there is a risk that expenditure does not meet the charitable objectives of the trust.

We recommended that, 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.

Work is currently ongoing with the Council to review the number of charities. OSCR has advised that trusts must be registered separately. Legal services are currently undertaking an exercise to categorise and assess all 70 Trusts; and the results of this exercise will be used to determine the best way to manage the trusts before submitting an application to OSCR to register the remaining charities. We also understand that the Council's view is that the risk that expenditure does meet the charitable objectives of the trust is mitigated as the purpose of the Trust has continued to be determined either through Trust deeds where they exist, historic data from demitting authorities or consistent custom and practice over many years.

Judgments and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code of Practice for Local Authority Accounting. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Pension liability

We performed substantive procedures and consulted advice from PwC actuarial specialists to assess the key assumptions in the actuarial valuation of the Council's pension liabilities. We also obtained confirmation of the value of assets in the Strathclyde Pension Fund, and independently verified the valuation of a sample of assets in the fund. We concluded from our work that the assumptions applied in calculating the Council's pension liability are reasonable.

Property, plant and equipment valuation

We have performed substantive testing of a sample of revalued assets to evidence to support valuation assumptions and inputs. We have also engaged PwC specialist valuations team to review the reasonableness of management assumptions and the various valuation methods employed by the Council. We concluded from our work that the valuation methods are appropriate and resulting valuations are reasonable.

Through our review of assets we identified Halfmerke Primary School as being scheduled for demolition but had a useful life of 36 years remaining at 31 March 2016. In accordance with IAS 16 – Property, Plant and Equipment, the useful life of assets and depreciation should be considered at least once a year to ensure this remains appropriate. The Council revised the useful life of the asset in order that it would be fully depreciated at the point of demolition in 2016/17. This resulted in an adjustment to the carrying value of the school at the year-end, which has been processed by management.

Contingent liabilities, including holiday pay

We have held discussions with relevant senior management at the Council and obtained a legal confirmation to support management's assessment of contingent liabilities. Specifically regarding holiday pay following EU case law, we conclude that management's decision to recognise a contingent liability in 2015/16 is appropriate, as neither the value, validity, nor timing of any potential claims can be estimated with certainty.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We sought comfort over the completeness of related parties by agreeing interests included in the financial statements to the register of interest for each Council member and senior officer. We also performed a further internet search to identify any undisclosed interests. We found no issues with the completeness of related parties identified by management.

To obtain comfort over the value of transactions disclosed in Note 23 to the financial statements, we obtained the listing of all related party transactions prepared by Finance and tested a sample to the Oracle ledger to verify the total value of transactions with the identified organisations during the year. We also performed a further search in Oracle by supplier name to identify if there were any duplicate supplier accounts where there had been transactions with related parties recorded in the year.

We did not identify any matters during the course of our work.

Annual Governance Statement

The CIPFA Code of Practice on Local Authority Accounting states the following in relation to Scottish Local Authorities and the preparation of an annual governance statement:

"Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts."

The Council conducts an annual governance review and has presented a Statement of governance and internal control in the Annual Accounts.

We reviewed the Statement of governance and internal control to consider whether it is consistent with the requirements set out in the Code, 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.

Section 3. Financial standing

2015/16 Financial Performance

The Council achieved a deficit of £11.081 million on the provision of services in 2015/16, compared to a surplus of £6.970 million in 2014/15. 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 financial performance for the General Fund and Housing Revenue Account for 2015/16 is summarised in the table below.

Table 2: Financial performance 2015/16 with comparatives

	2015/16 £000		2014/15 £000	
Net Cost of Services	**668,257**		**634,574**	
Other operating expenditure	2,226		217	
Financing and Investment Income and Expenditure	80,363		81,040	
Taxation and Non-Specific Grant Income	(739,154)		(722,801)	
(Surplus)/Deficit on Provision of Services	**11,692**		**(6,970)**	
	General Fund	**HRA**	**General Fund**	**HRA**
Surplus/(Deficit) on Provision of Services	**2,511**	**(14,203)**	**26,611**	**(19,641)**
Adjustments between accounting basis and funding basis under regulations.	8,252	16,174	(26,127)	24,160
Net Increase/(Decrease) before Transfers to Reserves	**10,763**	**1,971**	**484**	**4,519**
Transfers to/(from) Reserves	4,656	0	3,677	0
Increase/(Decrease) in Year	**15,419**	**1,971**	**4,161**	**4,519**
Opening Balance	17,548	10,574	13,387	6,055
Closing Balance	**32,967**	**12,545**	**17,548**	**10,574**

The General Fund balance, including both earmarked and non-earmarked reserves, has increased by £15.419 million in the year to £32.967 million as at 31 March 2016. The increase in the General Fund in 2015/16 reflects the Council's approved transfer made in 2015/16 of £10.560 million to Earmarked Reserves, which is predominantly identified to help offset savings requirements in 2016/17.

Performance against Budget

The Council's General Fund outturn report for 2015/16 showed an underspend of £0.386 million, to be transferred to Unearmarked Reserves.

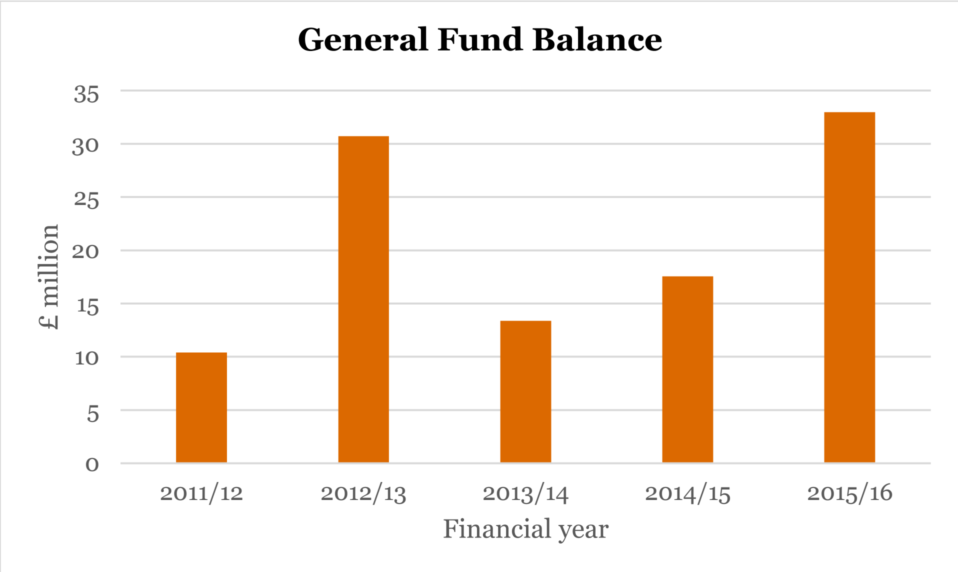
The Council prepared a balanced budget for 2015/16 which was approved in February 2015, with a net revenue budget of £677.235 million. This was later increased to the final budget of £682.491 million.

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

Reserves

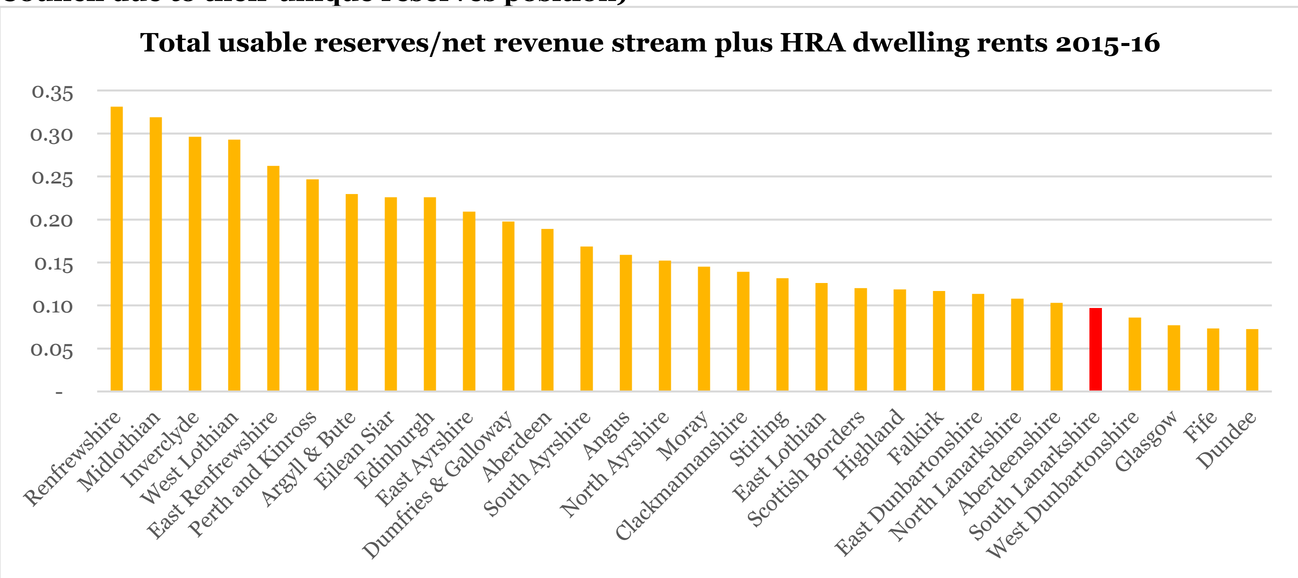
The Council's general fund balance has increased by £15.419 million in the current year. See table below showing movements in the general fund over the last five years.

Table 3: General fund balance 2011/12 – 2015/16



Overall the Council's level of general reserves relative to its size are low. This has been reviewed in the context of the Council's Reserve Strategy and is in line with the Council's expectations. See table below which outlines how South Lanarkshire Council compares to other Scottish local authorities in terms of total useable Reserves as a proportion of their net revenue stream.

Table 4: General fund balances relative to Council size (excluding Orkney and Shetland Islands Council due to their unique reserves position)



As part of the Financial Strategy approved by the Executive Committee, The Council has a reserves strategy which sets out how each reserve will be used going forward. The total balance of the general fund as at 31 March 2016 is £32.967 million - this includes both earmarked and un-marked General Fund balances.

The Council's reserve strategy also covers each of its reserves which have been established with a specific purpose, including the Repairs and Renewals Fund, Insurance Fund, and the Capital Fund which contains further earmarked funds such as the IT Development Fund and the Education Capital Replacement Fund. From our review of the reserves strategy we are comfortable that the Council is holding each of these reserves for a specific purpose and has a strategy for how they will be utilised over the coming years.

Capital Expenditure

The Council has two distinct Capital Expenditure programmes in place: the General Services Programme, and the Housing Capital Programme.

General Services Programme

The General Services Programme had a final capital expenditure budget for 2015/16 of £102.346 million, against which £95.683 million of expenditure was incurred. The key projects funded from the General Services Programme include the Primary Schools Modernisation Programme and Roads Investment Programme. A number of projects within the Community and Enterprise Resources category accounted for £3.581 million of the £6.663 million underspend against budget, primarily due to the timing of planned expenditure over the programme.

Table 4: 2015/16 sources of General Services Programme capital funding

Source	Funding £million
Prudential borrowing	45.541
Heritage lottery / Sportscotland Grant	0.532
Planning gain	0.332
Partner organisations	2.889
Scottish Government capital grant	33.884
Scottish Government specific grants	11.089
Specific reserves	0.965
Current revenue	0.451
Total	**95.683**

The General Services Programme capital budget for 2016/17 is £101.677 million. This includes a budget of £69.272 million for the Primary Schools' Modernisation Programme and the Roads and Rural Investment Plan. The overall budget also includes a £25.001 million for the Glasgow and Clyde Valley City Deal, a new project approved on 11 May 2016 by the Executive Committee.

Housing Capital Programme

The Housing Capital Programme had a final capital expenditure budget of £40.100 million, against which £42.100 million of expenditure was incurred. The overspend of £2.000 million was primarily due the ongoing environmental works programme which has advanced further than anticipated when the budget was originally agreed.

Capital expenditure in year was funded through the following key sources:

Table 5: 2015/16 sources of Housing Capital Programme funding

Source	Funding £million
House sales	6.050
Land sales	0.546
Current revenue	18.170
Prudential borrowing	12.934
Specific grant	3.732
Miscellaneous income	0.668
Total	**42.100**

The budgeted expenditure for 2016/17 for the Housing Capital Programme is £34.109 million.

Efficiency savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. For 2015/16, the Council approved an overall savings target of £17.606 million.

The Council reports information on achieved efficiencies to the Scottish Government by completing an Efficiency Statement. Only certain savings achieved can be classified and reported as efficiencies based on the Scottish Government criteria.

Of the £17.606 million of agreed savings for 2015/16, £2.385 million were not deliverable, and £7.854 million of the approved savings were not reported as efficiencies due to the criteria set by the Scottish Government. During the year, however, additional efficiency savings of £2.866 million were identified from review of procurement practices (£2.752 million) and efficiencies found from the Lanarkshire Valuation Joint Board (£0.114 million). This resulted in actual efficiencies reported to the Scottish Government for 2015/16 of £10.233 million.

Table 6: Efficiency savings 2015/16

Source	Efficiencies £ million	% of total
Community and Enterprise Resources	1.819	18%
Education	0.190	2%
Finance and Corporate	2.984	29%
Housing and Technical	1.648	16%
Social Work	0.726	7%
LVJB	0.114	1%
Procurement	2.752	27%
Total reported	**10.233**	**100%**

2016/17 Budget

The Council's revenue budget has been set at £662.802 million for 2016/17, of which £546.169 million (82%) is funded by Government grants, £109.504 million (17%) by council tax collection after council tax reduction subsidy and also £7.129 million consisting of 2015/16 underspend (1%).

A total savings package of £43.081 million was included in the 2016/17 budget, which was approved in February 2016 by the Executive Committee.

Budgeted expenditure for 2016/17 has taken into account, among others, the following key factors:

- the approved savings package of £43.081 million;
- a staff pay award; and
- increasing pension contributions.

2017/18 Budget

In June 2015 the Executive Committee approved the Council's Financial Strategy for 2016/17 to 2018/19. The Council also has a longer term strategy covering 2019/2020 to 2025/2026, giving a high level prediction of issues likely to impact it into this period.

Key financial pressures over the coming years will include the increasing efficiency savings required to achieve a balanced financial position each year, and uncertainty around grant allocation for these years as the Scottish Government has not yet given settlements for grant funding beyond 2016/17.

When setting the 2017/18 strategy the following key items in particular have been taken into account:

- An estimated 1.6% reduction in the Council's grant from Scottish Government. There is greater uncertainty on this assumption due to the EU Referendum results;
- Permanent savings required to replace the one off underspend (£7.129 million) utilisation in the 2016/17 budget;
- Scottish Government initiatives, such as the Social Care Providers' Low Pay Commitment taking effect in October 2016 which will move the rate of pay from £7 per hour to £8.12 per hour.

These key estimates will also be in the context of year on year pressures to find savings in order to balance the impact of inflation and to continue to meet pay awards in 2016/17 and beyond. Originally the Financial Strategy estimated a savings requirement in 2017/18 of £26.102 million. Due to changing assumptions and new information, this has now been updated to £34.961 million.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed in April 2014 as part of the Scottish Government's agenda to drive improvement in the provision of health and social care services. The Act details the integration models available to Health Boards and Local Authorities in developing their integration strategy as well as required documentation and timescales for delivery of integration schemes.

During the year, the Council met the Scottish Government deadline and the South Lanarkshire Integration Joint Board went live in April 2016. The Joint Board was officially established on 6 October 2015 and acted in a shadow capacity to provide an opportunity to develop a Strategic Plan until April 2016. Arrangements were put in place to cover the operational, governance, accountability and strategic planning aspects required for the Joint Board to operate.

The Joint Board utilises the key financial systems in place at the Council, in particular general ledger, payroll, accounts payable and accounts receivable. The Joint Board prepared its first financial statements for the year end 2015/16. An unqualified audit opinion was issued on the 2015/16 accounts.

The Joint Board's financial performance can be summarised as follows:

	Year ended 31 March 2016 (£'000)
Total expenditure	45
Income	(45)
Net cost of services	**-**
Total comprehensive expenditure	**-**

Financial standing

Based on our audit work performed, we have no concerns over the financial standing of the Council.

Section 5. 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 publishes 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 department every year. Reports drawn from IMPROVe are included in the quarterly updates to Committees.

Public performance reporting is achieved through the publication of an Annual Performance Report (APR), which covers achievements and areas for improvement against each of the council's objectives. The APR is supplemented by a suite of performance reports on the council's web site which include trends over time and comparative performance information.

Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish in the following financial year. In 2015/16 the Commission has determined a new approach to the Statutory Performance Indicators (SPI) requirements. As part of continuing improvements being made to the SPI regime by the Accounts Commission since 2008, the Accounts Commission has considered how the SPI process could be more effectively aligned with their new integrated approach to auditing Best Value.

The Accounts Commission has adopted a new SPI strategy which incorporates longer-term performance information, reflecting the increasing maturity of the Commission's ongoing support and integrating councils' assessments of performance management approaches. This will first apply for the financial year 2016/17.

In terms of our responsibilities as your appointed auditor, we were not required to formally audit the SPI return for 2015/16 submitted by the Council. We are required to comment on the arrangements in place for collecting, recording and publishing performance data in accordance with the direction as set by the Accounts Commission.

We found that processes for the collection and reporting of performance indicators were unchanged during the year, and remain in accordance with previously stated guidance from the Accounts Commission. We did note that a consultation did take place during the year to assess and improve the accessibility and relevance of performance information shown on the Council's website.

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.

Overall the trading operations show a deficit over the three year period for 2013/14 to 2015/16 of £4.390 million. This is due to the cumulative deficit within Facilities Management of £23.285 million.

Facilities Management made a deficit in 2013/14 of £22.390 million and a deficit of £2.191 million in 2014/15 due to the impact of equal pay claims. In 2015/16, Facilities Management made a surplus of £1.296 million. All five trading operations made a surplus in the year and all operations except Facilities Management have made surpluses over the past three years.

Auditors are required by the Code of Audit Practice to report an authority's failure to achieve prescribed financial targets, however in line with Audit Scotland's technical guidance for 2015/16 the requirement for trading operations to achieve a surplus over the three years applies to external trading only. As the deficit relates fully to internal costs we confirm that this has no impact on our audit opinion for 2015/16 as the Council has met the requirement for trading operations.

Best Value

In June 2016, the Accounts Commission agreed a framework on their new approach for auditing Best Value. The new approach aims to be more proportionate, risk-based and outcome-focused, providing the Commission and the public with more regular assurance about the performance of councils. The aim is to bring together the audit work performed on Best Value, the annual financial audit and the multi-agency shared risk assessment process. The introduction of the framework coincides with the new five-year audit appointments by the Commission.

The Council has embedded best value arrangements throughout the organisation. The Council has long term financial planning in place, with their Financial Strategy covering 2016/17 to 2018/19 as well as a more high level strategy covering 2019/20 to 2025/26. Underpinning high level strategies is the Council's plan 'Connect' which provides the vision for the area, the priorities for service delivery, the objectives and values for 2012-2017. An electronic performance monitoring and reporting system (IMPROVe) is used to track progress against the measures and targets set by 'Connect'. This clear link between strategy and operational planning provides the environment for effective long term financial planning.

In response to the challenging economic environment and public spending cuts, the Council have been running a programme of service reviews covering 13 areas including working patterns, fleet, facilities, contracts, Customer Contact and Finance. Progress is reported to and monitored through the Executive Committee.

The Council has also sought to embed value for money within their operational structure. The Council looks to best practice, such as Scotland Excel and Scottish Procurement, when considering procurements. Proper contract management arrangements are also in place to minimise unnecessary spend.

Exit packages

The Council has incurred a total of £1.054 million in 2015/16 on exit packages agreed in respect of compulsory redundancies or other agreed departures.

See table below which sets out the number and value of packages agreed. Within the table, the "Exit Package Cost Band" reflects the total costs of the package, including notional costs for compensatory added years which are not due to be incurred by the Council this year.

The "Total Cash Value" does not reflect the payment made to the individual, but includes payment to pension funds:

Table 7: Exit packages

Exit package cost band	Total number of exit packages by cost band	Total cash value of exit packages in each band	Total notional value of exit packages in each band	Total value of exit packages
£0 – £20,000	1	2,343	-	2,343
£20,001 - £40,000	1	22,443	9,887	32,330
£40,001 - £60,000	0	0	-	-
£60,001 - £80,000	1	67,406	-	67,406
£80,001 - £100,000	0	0	-	-
£100,001 - £150,000	1	80,978	59,268	140,246
>£150,000	5	626,478	605,735	1,232,213
Total	**9**	**799,648**	**674,890**	**1,474,538**
Provisions (amounts agreed not paid)	2	254,097	-	254,097

We have performed sample testing over the exit packages in 2015/16 and can confirm that all packages were approved in accordance with the Council's policies and procedures.

The Scottish Government issued statutory guidance which provides local authorities with financial flexibility to assist with meeting the costs associated with equal pay and severance (Finance circular 4/2015 Equal pay and severance) which permits authorities to:

- delay the financial impact of equal pay and severance until a cash payment is made
- use capital receipts to fund equal pay back pay settlements and severance payments.

The statutory guidance, which is not mandatory but gives authorities flexibility, applies from 1 April 2014 and will expire on 1 April 2018. The Council has not delayed the financial impact of exit packages and, as noted in the table above, recognised the expense for any packages agreed but not yet paid.

Workforce planning in Councils

In November 2013 Audit Scotland published their report "*Scotland's Public Sector Workforce*" which made recommendations in the following key areas of workforce planning:

- Develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content and which are scrutinised and monitored by senior managers and boards or elected members;
- Assess the impact of different terms and conditions on the likely costs and uptake of their schemes before they put a scheme in place;
- Collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members;
- Forecast expected staff numbers, skill needs and costs on a rolling three year basis, using scenario planning where necessary; and
- Make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces.

In accordance with our responsibilities as your appointed auditor, we have completed the follow-up questionnaire and submitted this to Audit Scotland. The Council is meeting the majority of the recommendations as proposed by the Audit Scotland report. The Executive Committee approved the Strategic Workforce Plan (2016-2019) on 13 April 2016. The structure of the plan and the supporting processes were informed by the Audit Scotland report. The following areas for improvement have been reported within the questionnaire:

- The Council has not as yet produced individual workforce plans for all services. Housing and Technical Resources have developed a plan for 2015-2018 and other services have the objective of preparing workforce plans by September 2016.
- The Council's current workforce plans did not incorporate scenario planning to help inform service delivery. A scenario planning tool has now been created and is being rolled out for implementation in all the departments as part of a Workforce Planning Toolkit.
- The Council has not identified and shared staff resources with its partners.

The Council has an action plan in place to address these three areas for improvements.

Community Empowerment Act

The Community Empowerment (Scotland) Act 2015 was passed by the Scottish Government in June 2015 and it is expected the majority of the provisions will come into effect by late summer 2016. The overall objective of the legislation is to empower local communities by improving their level of involvement in local decisions and strengthening the statutory provisions for community involvement.

The new legislation places duties on Community Planning Partnerships (CPPs) in relation to planning and delivery of local outcomes. Tackling inequalities has also been identified as an area of required focus for CPPs.

Section 4. Governance and internal control

Governance arrangements

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 2015/16.

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. We consider that the governance arrangements in place are appropriate.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Weaknesses or risks identified by auditors are only those which have come to our attention during the normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

General ledger transactions

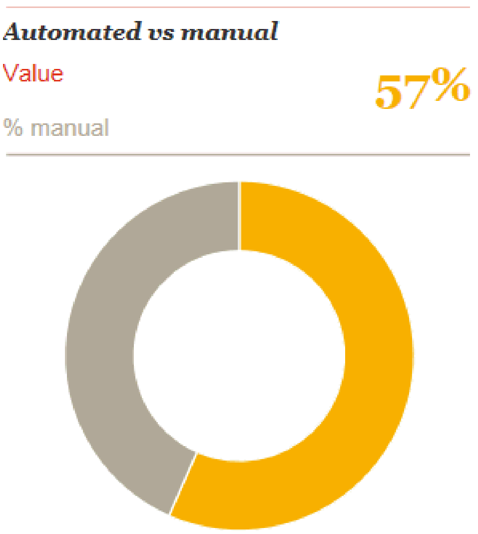
In accordance with *ISA (UK&I) 240 (revised): The Auditor's responsibilities relating to fraud in an audit of financial statements* an auditor is required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

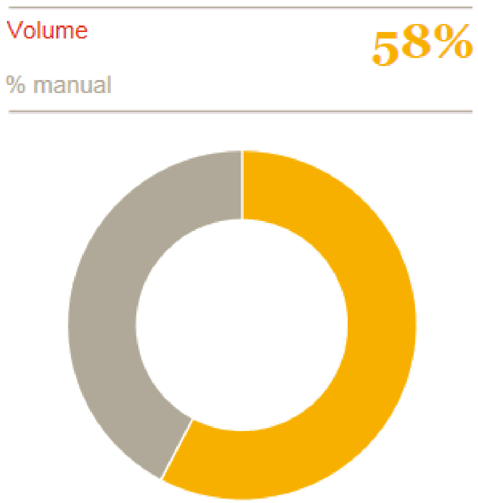
In 2015/16 we have performed detailed testing over journal entries within the Council ensuring we consider the complete population of journals and target our detailed testing on the items with the highest inherent risk.

Our 2015/16 data auditing has been facilitated by 'Halo' – an application that analyses and assures data using a suite of algorithms.

Using Halo, we have focused our journals testing on manual, material journals which improve the Councils performance during 2015/16 per the Consolidated Income and Expenditure Statement; either by increasing income or reducing expenditure. We have also sought to understand the purpose and use of a sample of automated journal sources to ensure they are being used for a valid purpose. No issues were identified in either aspect of the testing.

We have included some management information below, analysis journals by manual and automated. 57% of journals by value and 58% by volume were manually processed.





Control Deficiencies The follow up to the points raised in the prior year are set out in the table below.

Deficiency	2014/15 recommendation and management response	2015/16 update
Process for identifying related party transactions: Through our testing we noted there are multiple supplier accounts for some suppliers, and that not all transactions had been included in the first draft of the related party transactions listing. Management have since updated the related parties note and we are comfortable with the transactions now listed. The number of supplier accounts could be streamlined, which would assist in preparing related parties information in future.	**Recommendation:** Finance to review the number of supplier accounts and delete unnecessary duplicate supplier accounts. **Management's response:** The Council is undertaking a process to cleanse our finance system to remove any unnecessary duplication of suppliers that have accumulated over a period of time.	**Implemented.** A script has been developed to select large volumes of irregularly used/duplicate suppliers. These suppliers have been, and will continue to be, removed from the active supplier database. This is an ongoing rolling program to reduce the number of active suppliers listed.
Fixed asset register not updated for changes in asset descriptions: Whilst we have no concerns over the valuations recorded in the fixed asset register, through our testing we noted one item where the asset use and description had changed and this had not been reflected in the fixed asset register.	**Recommendation:** The fixed asset register is regularly reviewed and changes are made as required when assets descriptions or uses have changed. **Management's response:** Regular updates to the fixed asset system are made to reflect changes to assets including values and descriptions. Management will remind all parties involved to ensure that changes to assets must be notified timeously.	**Implemented.** The Fixed Asset Register is updated on a period by period basis (4 weekly) and all changes are made as instructed by the Estates department.

Based on our work performed we consider the systems of internal control to be appropriate.

Risk management

The Council has in place a Risk Management Strategy which is driven by the Council's objectives and 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.

Internal Audit

The Council has an in-house Internal Audit function which carries out a full internal audit program each year. The Head of Internal Audit reports to the Risk and Audit Scrutiny Forum every eight weeks on progress against the audit plan and reports key findings and areas of good practice noted through their work.

For our 2015/16 audit, while we have not relied on specific work performed by the Council's Internal Audit function we have reviewed the internal audit reports issued in the year to inform our risk assessment procedures and assessment of the Council's overall control environment. Internal Audit also assisted us in obtaining the transaction data required from the Oracle ledger system for our computer assisted audit techniques used for our testing of journals. We would like to thank the Council staff in the Internal Audit team for their assistance in these matters.

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

Section 5. 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 below:

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 Risk and Audit Scrutiny Forum

The Risk and Audit Scrutiny Forum's responsibility 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.

Standards of conduct and prevention and detection of fraud and corruption

The Council has in place a code of conduct and a code of good governance, a fraud prevention strategy, and appropriate fraud response procedures. The Council's in-house internal audit co-ordinate investigation and report on matches from the National Fraud Initiative exercise.

The Council participates in the National Fraud Initiative (NFI). The Council participated in 2014/15 NFI exercise which was reported on as part of our 2014/15 audit. In accordance with our responsibilities as your appointed auditor, we have completed the follow-up NFI questionnaire which was submitted by February 2016. We noted the Council has reported appropriately internally on the NFI progress and outcomes throughout the exercise. We also noted the Council has maintained the NFI with timely reporting, investigations and closing off cases when complete.

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

Section 6. Independence

Independence and objectivity

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 engagement we have made enquiries of all PricewaterhouseCoopers' teams and there are no matters to report impacting our independence.

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 would ask the Council to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.