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*Government and Public Sector*

# ***South Lanarkshire Council***

Annual Report to Members and the  
Controller of Audit for the year  
ended 31 March 2011

27 October 2011

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# *Executive summary*

## Introduction - Section 1

Our overall responsibility as external auditor of South Lanarkshire Council (“the Council”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: “Communication of audit matters to those charged with governance”, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our presentation to the October 2011 Risk and Scrutiny Forum, together with previous reports to the Risk and Scrutiny Forum throughout the year, discharges the requirements of ISA 260. A list of these reports is included at Appendix 2 to this report and confirmation of our responsibilities to you is shown in Appendix 3.

## Financial Statements and Audit Opinions - Section 2

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2011 is **unqualified**.

We proposed a number of adjustments during the audit. All of these adjustments have been processed by management in the final version of the 2010/11 financial statements.

The first time adoption of IFRS has seen the creation of a completely new format of financial statements. The Council’s finance team produced a good first draft of this document; with few significant audit adjustments proposed as a result. However, management have acknowledged that the preparation process for 2011/12 would benefit from an excel account template, that could help eliminate many disclosure points raised. We understand this work has commenced in preparation for 2011/12.

The Council is involved in pre hearings for Employment Tribunals relating to Equal Pay claims. This continues to represent a significant audit risk as the sums of money involved could be material to the financial statements. We have examined the accounting treatment and confirmed we are satisfied with the Council’s decision to recognise a contingent liability in the 2010/11 financial statements. This accounting treatment is appropriate rather than a provision given the current uncertainties over final outcomes and uncertainties over the timing of any resulting settlements.

## 2010/11 Financial Management and Performance - Section 3

The Council budgeted for a break-even position in 2010/11 but managed to achieve a £2 million under spend on the General Fund. This has been carried forward to contribute to the Councils approved Reserves Strategy, of building up around £10 million of unallocated General Fund Reserves by 2013/14. The cumulative carry forward on the General Fund is now £8.476 million.

In achieving a surplus against the General Fund, the Council reported its achievement of efficiency targets for the year of £19.767 million.

In total, the Council has available useable Reserves at 31 March 2011 of £95.012 million.

Useable reserves include: a repairs and renewals fund, a capital fund and an insurance fund. These reserves are designed to enable the Council to deal with unforeseen events and help manage the future period of heightened economic uncertainty.

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## Financial Outlook - Section 4

The Council has acknowledged the financial challenges which exist in its 2011/12 revenue budgets and 2012 to 2014 medium term financial plans. These have been set based on Scottish Government communications regarding likely levels of funding, and assume flatline grant funding after 2011/12.

A breakeven budget has been approved for 2011/12, with revenue expenditure of £696.705 million (2010/11 budget £704.039 million). To achieve this position an efficiency plan is in place for savings of £25.137 million. All Resources are aware of the targets and have reported at Resource Committees where the savings can be achieved.

The Council is planning to continue to focus expenditure at its strategic priorities as outlined in the Council Plan, Connect. This should see focused programmes of revenue and capital expenditure continuing in the areas of education, through the Schools modernisation programme; investments in the road networks; continued focus on the provision of social services to older people; and increasing the provision and quality of affordable housing.

## Governance and Control - Section 5

We have assessed the Council's overall governance arrangements including a review of Council and key Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place. We have also considered key areas of risk to the Council including partnership working; service sustainability; performance management; and people management.

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. 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.

Additional reviews undertaken and reported during the year concerning members expenses, the financial challenge and the early retirement of the Director of Finance and Information Technology, have been accepted by management and supported by management action plans where appropriate.

# 1. Introduction

## Purpose of this report

- 1.01 Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Council's attention to matters of significance that have arisen out of the 2010/11 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

## Scope, nature and extent of our audit

- 1.02 Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives.
- 1.03 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our presentation to the October 2011 Risk and Scrutiny Forum, together with previous reports to the Risk and Scrutiny Forum throughout the year, discharges the requirements of ISA 260.

## Acknowledgement

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Glasgow  
27 October 2011

## 2. *Financial Statements and Audit Opinion*

### Audit Opinion

- 2.01 We have completed the audit of the Council's accounts in line with current International Auditing Standards and have given an **unqualified** opinion that the financial statements of the Council for 2010/11 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
- 2.02 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Directors' Report.

### Audit Approach

- 2.03 Our audit approach was set out in our Annual Audit Plan as presented to the Risk and Audit Scrutiny Forum Members in March 2011. There have been no changes to our audit plan.

### Audit Process

- 2.04 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. 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. Overall we believe an efficient audit process was achieved and an effective working relationship continues to exist with your officers.

### Basis of Preparation

- 2.05 The financial statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).
- 2.06 The 2010/11 financial statements reflect the first time adoption of IFRS. This posed additional challenges for management as the financial statements are presented in a significantly different format from prior years. The first draft of the financial statements was prepared to a good quality with no significant omissions or issues identified during the audit. However, the adoption of IFRS during the year has resulted in a greater number of disclosure adjustments being identified from the audit than in previous years.

### Misstatements and significant audit adjustments

- 2.07 We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.
- 2.08 A number of adjustments to the format of, and figures within, the financial statements have been discussed during the course of our audit. **All audit adjustments have been processed** in the final financial statements.

## Significant Accounting Issues Identified and Reporting

- 2.09 During the course of our audit we have identified a number of issues that we are required to report upon formally. The most significant of these audit areas are set out below.

### Adoption of IFRS

- 2.10 The 2010/11 Statement of Accounts has been prepared for the first time on an IFRS basis. The adoption of the IFRS based Code has resulted in the restatement of a number of balances and transactions, including some 2009/10 opening balances and transactions during 2009/10.

- 2.11 The IFRS transition has particularly impacted the Council in the following areas:

- Short-term accumulated compensated absences;
- Classification of Property, Plant and Equipment, Investment Properties and Assets Held for Sale;
- Leases; and
- Treatment of Government Grants.

- 2.12 In addition the IFRS based Code has required many changes to the disclosures throughout the Financial Statements.

- 2.13 The transition to IFRS was included in our audit plan as an elevated risk and additional focussed testing was conducted in this area in order to mitigate this risk, in particular we:

- Gained an understanding of management's approach to identifying areas requiring restatement and their approach to derive the restated balances;
- Performed testing on a sample basis designed to gain comfort over calculations to restate balances and to assess the completeness of adjustments proposed; and
- Undertook a number of rigorous reviews of the Statement of Accounts to consider the appropriateness of disclosures included and any possible omissions; these included the use of a dedicated PwC financial statement review team; an independent 'hot' review by a Local Authority specialist and review by our dedicated Quality Review Partner.

- 2.14 No significant accounting or presentation issues were identified from these reviews, however, a number of disclosure changes were proposed. These changes were accepted and updated in the amended draft.

- 2.15 **Management has commenced work on an excel template to be used in the preparation of the financial statements. This should be completed for the 2011/12 accounts and include inbuilt checks to help ensure all notes are cross referenced and cast. This will assist management when implementing changes or updates, enabling automatic updates of notes through linked formulae.**

**Action 1**

### Contingent Liabilities – Equal Pay

- 2.16 The Council is engaged in an Employment Tribunal in respect of a number of equal pay claims. Around 2000 equal pay claims have been lodged with the Employment Tribunal. The pre-hearing review is underway and further dates are listed for the Employment Tribunal in September and October of this year. The final outcome remains uncertain at this time as the pre-hearing review is at a preliminary stage.

- 2.17 This continues to represent a risk to the Council as the sums of money involved could be material to the financial statements. As a result, under accounting standards, we were bound to consider:

- What form of liability, if any, should be recognised in respect of the Council's equal pay claims; and
- What is the value of this liability.

- 2.18 Management continues to treat these claims as a contingent liability within the financial statements, rather than a provision, based on the following rationale:

- Single Status was fully implemented by the Council in 2002;
- Independent Legal support was obtained by the Council for the robustness of the job evaluation scheme, implemented as part of Single Status;
- The final outcomes of the claims lodged with the Tribunal are not certain, and it may be several years before any decision is reached; and
- Even if a proportion of claims are successful, there is uncertainty around the amount of settlement payable to each applicant for arrears

2.19 **We performed work around management's accounting treatment of equal pay claims and concluded it to be appropriate to treat this matter as a contingent liability.**

**Action 2**

## Other Year End Findings

2.20 During our audit work two further areas to enhance controls were identified relating to the property, plant and equipment module of the Oracle Financial Management System and to the Council's five year asset valuation programme, as follows:

a) A forward looking recommendation has been proposed to ensure the Council is taking all necessary steps regarding valuations and ability to demonstrate that all assets have been considered, even if outwith the five year rolling revaluation programme, to ensure fair values are not materially misstated. To ensure the Council can demonstrate that it satisfies these requirements for the 2011/12 audit the following recommendations have been proposed.

- *The Council should ensure all assets are subject to a formal valuation at least every five years.*
- *In addition, on an annual basis, the Council should ensure it is satisfied that property, plant and equipment is not materially misstated from its fair value by considering the implications from the valuations performed on other classes of assets and by conducting impairment reviews.*

**Action 3**

b) Reconciliations are undertaken on a periodic basis to keep track of the true value of the assets' revaluation reserve; however this work is often time consuming and an inefficient use of time. The Council is in the process of liaising with Oracle software developers to try to address these system issues. This work should be completed to ensure the Council has a fit for purpose fixed asset module going forward.

**Action 4**



### 3. 2010/11 Financial Performance

#### 2010/11 Financial Performance

- 3.01 The Council's General Fund and Housing Revenue Account financial performance for 2010/11 is summarised in the table below. The restated 2009/10 IFRS comparatives are included. Against a backdrop of tightening budgets the Council achieved a positive General Fund outturn of £2 million against a breakeven budget. This outturn included a transfer from the General Fund to other Usable Reserves of £11.592 million.

	2010/11 £'000		Restated 2009/10 £'000	
<b>Net Cost of Services</b>	<b>(606,088)</b>		<b>(710,795)</b>	
Taxation and Non-Specific Grant Income	725,446		720,878	
Other Income and Expenditure (Financing and Investment)	(48,441)		(50,725)	
<b>Surplus / (Deficit) on Provision of Services</b>	<b>70,917</b>		<b>(40,642)</b>	
	<b>General Fund</b>	<b>HRA</b>	<b>General Fund</b>	<b>HRA</b>
<b>Surplus / (Deficit) on Provision of Services</b>	<b>81,297</b>	<b>(10,380)</b>	<b>(21,130)</b>	<b>(19,512)</b>
Adjustments between accounting basis and funding basis under regulations.	(67,705)	14,122	22,688	20,537
<b>Net Increase before Transfers to Reserves</b>	<b>13,592</b>	<b>3,742</b>	<b>1,558</b>	<b>1,025</b>
Transfers (to)/from Reserves	(11,592)	-	695	-
<b>Increase in Year</b>	<b>2,000</b>	<b>3,742</b>	<b>2,253</b>	<b>1,025</b>
<b>Opening Balance</b>	<b>6,476</b>	<b>1,213</b>	<b>4,223</b>	<b>188</b>
<b>Closing Balance</b>	<b>8,476</b>	<b>4,955</b>	<b>6,476</b>	<b>1,213</b>

- 3.02 In 2010/11 there was an exceptional pensions past service gain of £138.010 million. This contributed to the significant fall in Net Cost of Services in 2010/11. This gain relates primarily to a change in the discount rate applied to pension benefits from the Retail Price Index to the Consumer Price Index. This change in index rate has reduced the Council's pension fund liability to £236.140 million; a decrease of £264.590 million from the March 2010 position of £500.730 million.

#### Reserves Strategy

- 3.03 The Council operates an approved Reserves Strategy as part of its medium term financial planning to help ensure financial stability over the next spending review period. The Reserves Strategy outlines planned movements in Usable Reserves during the period to 2013/14. The Strategy includes a closing target for the General Fund at 2013/14 of between £7.5 million and £10 million, (the 2010/11 closing balance is within this range, being £8.476 million).
- 3.04 The Total Usable Reserves of the Council as at 31 March 2011 are £95.012 million, an increase of £21.347 million from the 2009/10 closing position of £73.665 million.

- 3.05 The transfers in the year totalling £11.592 million were made to the Repairs and Renewals Fund (£5.038 million), the Capital Fund (£4.025 million) and the Insurance Fund (£2.529 million). This is for future investment in the Council's infrastructure and to provide flexibility for future claims and losses made against the Council.

Reserves at 31 March 2011	£'000	Transfers during 2010/11
General Fund Balance	8,476	n/a
Housing Revenue Account	4,955	n/a
Capital Receipts Reserve	32,470	n/a
Repairs and Renewals Fund	20,698	To finance expenditure incurred in repairing, maintaining and replacing Council assets.
Insurance Fund	8,541	Each Council Resource contributes to this fund during the year, with the balance used to meet the costs of fire damage, public liability, employer liability and various other claims
Capital Fund	19,872	Earmarked by the Council to fund individual capital programmes and to fund the repayment of loans fund principal.
	<b>95,012</b>	

### *Efficiency Savings*

- 3.06 The Council is required to contribute 2% savings towards the Scottish Governments Efficiency Targets annually.
- 3.07 The Efficiency Statement, submitted by the Council to CoSLA and the Scottish Government, reflected cash and time release savings for 2010/2011 across all Resources totalling £19.767m (2.8% of the Council's budget). £7.294m of these efficiencies were achieved Council wide from utilities, loan charges and pay award savings.

### *Trading Operations*

- 3.08 South Lanarkshire Council operates 5 trading operations (Facilities Management, Fleet Services, Grounds Maintenance, Roads, and Building Maintenance). Each trading operation achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2010/11 was £10.009 million (2009/10 £11.961 million), with a cumulative surplus of £31.883 million achieved over the latest three year period.

### *Capital Expenditure*

- 3.09 The Council had a revised general fund capital programme budget of £128.517 million for 2010/11, and reported actual expenditure of £118.285 million. £4.576 million of projects will carry forward into 2011/12 to be managed as part of the 2011/12 programme. In addition, £40.628 million was spent on the Housing Programme in 2010/11 against a budget of £42.033 million.
- 3.10 The significant general fund capital projects of the Council include the Primary Schools Modernisation project and the Roads Investment Programme. In addition, in 2011/12 investment will be made in the Council's leisure centres and swimming pools.

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### *Statutory Performance Indicators*

- 3.11 The Accounts Commission has a statutory responsibility to specify information that Councils must publish about their performance in the form of statutory performance indicators. For 2010/2011, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).
- 3.12 Auditors are expected to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures undertaken by the Research function of the Council's Finance and IT Resource, the Council was able to demonstrate the basis for the SPIs reported.
- 3.13 As part of this work, we identified a minor recommendation in respect of review process.

**Action 5**

## 4. *Financial Outlook*

### *2011/12*

- 4.01 The Council has approved its budget for the period 2011/12, which provides for a break-even position.
- 4.02 The 2011/12 revenue budget is £696.705 million (2010/11 budget £707.661 million). The budget is based on the one year financial settlement for 2011/12, outlined by the Scottish Government in December 2010. This confirmed Grant funding for 2011/12 of £589.021 million. While a break-even budget has been approved this is likely to present challenges for the Council and requires a significant balance of efficiencies to be identified.
- 4.03 The 2011/12 budget indicates savings of £25.137 million are required. The required savings were communicated to Resources and special Resource Committee meetings were held to approve the specific areas where savings may be realised.
- 4.04 In spite of these challenging times the Council will continue to focus expenditure on the following areas in 2011/12, in accordance with Council priorities as detailed in the Council plan, Connect. These are as follows:
- Education – investment in schools modernisation programmes;
  - Continued investment in the roads network;
  - Social Work – continued growth in older peoples' services to address projected demographic changes;
  - Improve the quality and availability of housing.
- 4.05 As reported to the Executive Committee in September 2011, the Council is still anticipating a breakeven position for 2011/12, with an under spend on the General Fund Revenue Account of £0.266 million to August 2011.
- 4.06 The Council remains committed to completing its key capital programmes and has approved a revised General Fund capital programme budget of £126.364 million (2010/11 budget £128.517 million) for 2011/12. A revised capital programme to 2013/14 has also been approved.

### *2012/13 to 2013/14*

- 4.07 The 2011/12 budget was set based on a one year settlement agreement from the Scottish Government. However to manage longer term financial planning a strategy has been prepared covering the period 2012/13 to 2013/14. This period budget is based on government advice highlighting a 'flatlined' budget settlement for local government over this period.
- 4.08 Taking into account the funding available, the current base budget and the commitments identified; a required savings balance has been identified of £25.137 million for 2011/12. These savings were approved by resourcing in February 2011.
- 4.09 Savings for 2012/13 are estimated to be £12.1 million.

## 5. Governance and Control

### Overall Governance Arrangements

- 5.01 There have been no significant changes to the overall governance arrangements operating at the Council during 2010/11.
- 5.02 The main restructuring change at the Council was to incorporate Internal Audit and Risk Management within the Corporate Improvement Unit in January 2011. The intention is that this will enable the Council to ensure the consistency of approaches across the Council, and to ensure that risk management arrangements are better aligned to the Council's priorities, thereby informing key council decision making and actions.
- 5.03 It was reported in our Interim Management Letter 2010/11, that we had concern over the long term viability of not having a dedicated Director of Finance in post. As an interim measure the Chief Executive undertook the role in a joint capacity, incorporating the responsibilities of the Director of Finance for a significant portion of the year. We are pleased to note that the post of Director of Finance and Corporate Resources has now been filled.

### Statement of Governance and Internal Control

- 5.04 The Council is required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The Council's Statement of Governance and Internal Control was included in the financial statements.
- 5.05 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

### Accounting Systems and Systems of Internal Control

- 5.06 It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.
- 5.07 The results of our work on systems of internal control were communicated to the Risk and Audit Scrutiny Forum in our Interim Management Letter dated June 2011. The report contained seven recommendations to improve controls, two of which were graded as higher risk. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.
- 5.08 Since issuing our Interim Management Letter both of the higher risk recommendations, relating to the appointment of a Director of Finance and approval of a Procurement Strategy, have been addressed by management.

### Follow up of outstanding recommendations

- 5.09 We followed up the Council's progress in implementing recommendations made in the prior year. Our 'Follow Up of 2009/10 Audit Recommendations' report was considered at the Risk and Audit Scrutiny Forum meeting in June 2011. At the time of reporting, of the 24 agreed actions, progress was as follows:

Status	Total
Fully implemented	11
Partially implemented	4
Not yet implemented	-
Not yet due for implementation	1
Superseded by another recommendation	6
No longer applicable	2
<b>Total Recommendations</b>	<b>24</b>

- 5.10 We are pleased to report that, of the recommendations due to be implemented, all have been progressed by management. This demonstrates a significant commitment by management to improve the overall control environment within the Council.

## National Fraud Initiative

- 5.11 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
- 5.12 The Council must complete the NFI exercise by March 2012; investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and has taken steps to review its NFI arrangements. At the time of our audit visit, work was underway and responsible officers had been identified and assigned their matched cases requiring investigation. An action exists to ensure this process is completed within the Audit Scotland timeframe. We are required to report to Audit Scotland on the Council's NFI arrangements by the same date. We are satisfied that the Council's arrangements appear reasonable to address the February 2012 deadline.

## National Performance Audits

- 5.13 At the request of Audit Scotland, we were required to perform targeted follow up work on two of their National Performance Reports: *Improving public sector purchasing* (published July 2009) and *Sustainable Waste Management* (published September 2007). The findings of our work have been reported to the Risk and Audit Scrutiny Forum in separate reports in September 2011.

### Improving public sector purchasing

- 5.14 Overall, the Council was able to demonstrate some improvement in its procurement arrangements with a Procurement Capability Assessment score of 11% in 2009 increasing to 23% in 2010. However the Council's score is still in the 'non conformance' grading category, below 25%.
- 5.15 The assessment team did note that the Council has begun to lay strong foundations for the delivery of future procurement benefits and acknowledged that the Council was already aware of the areas where development is required and noted a clear commitment could be seen from senior management towards the development of the procurement service, as a strategy and prioritised action plan has now been developed.

### Sustainable Waste Management

- 5.16 The Council has incorporated waste management objectives within the Council Plan, Connect, and the Sustainable Development Strategy. These are accompanied by detailed actions and performance measures to enable monitoring of performance by the Council to drive improvements.

- 5.17 The Council has acknowledged that further action is still required and considers it necessary to procure new generation waste treatment facilities to meet Scottish Government Zero Waste targets. The Council is currently engaged in a procurement process and has identified a preferred bidder in relation to its waste management solutions to help improve overall recycling and waste targets.
- 5.18 Following the completion of the procurement process the Council should be better placed to fully understand the potential costs of sustainable waste management improvements and the required infrastructure and facilities.

## Other 2010/11 Reviews

### Members' expenses

- 5.19 In our capacity as your external auditors, we undertook an independent review in respect of Members' expenses during the periods 1 April 2005 to 31 March 2006 and 1 April 2009 to 31 August 2010. Our review of the arrangements in 2009 to 2010 highlighted some recurring areas of non-compliance with the Council's Members' expenses policy in terms of disclosure of reasons for certain claims.
- 5.20 Our recommendations reported to members in December 2010 did not require any changes to the existing Members' expense policy, but does require the ongoing co-operation of all Members to ensure there is full compliance. This will be followed up as part of our 2011/12 audit.

### Action 6

### Financial Challenge

- 5.21 At the request of the Chief Executive, we undertook a review of the Council's financial planning process in November 2010. Our review considered the financial gap over the next three years, reporting and the communication process of discussing, informing and reporting the financial gap to Council Members.
- 5.22 Our findings were reported to Council in November 2010 and included recommendations in respect of presentation, linkage, consistency of terminology, use of summary tables and upfront summaries in Members communication. All recommendations were accepted by management.

### Early retirement of the Director of Finance and Information Technology

- 5.23 At the request of Audit Scotland and in line with our responsibilities under the Code of Practice for Local Authorities, we undertook a review of the Director of Finance and Information Technology's early retirement arrangements, specifically considering governance and compliance, communication and options appraisal/value for money. Our findings were presented to Audit Scotland in July 2011.
- 5.24 We concluded that:
- the package provided was in line with the contract of employment, which included early retirement provision;
  - full pay was provided from 18 October 2010 up to the leave date of 18 April 2011;
  - the Council followed its usual early retirement approval procedures, however these are not fully aligned to 'Buy now, pay later?' guidance (prepared by Audit Scotland in 2003) which recommends that elected members are involved in approving early retirement decisions for senior staff. The Council has delegated the authority to approve early retirement to Council management;
  - HR and legal advice was sought where required;
  - whilst the Director of Finance was available for special projects, none were undertaken at the Council between 18 October 2010 and 18 April 2011. Therefore there is no documentary evidence to demonstrate value for money for the full pay provided from 18 October 2010 to 18 April 2011;
  - evidence was provided to indicate that the decision to allow early retirement was made in respect of efficiency of the service and aligned to the Council's restructuring of its Corporate Management Team; and
  - the Remuneration Report in the financial statements to 31 March 2011 discloses the remuneration to 31 March only; the final remuneration and pension at retirement date, which is higher due to compensatory added years, will be disclosed in the 2011/12 Remuneration Report.

# ***Appendices***



# Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	2.15	<p><b>Financial statements template</b></p> <p>Management has commended work on an excel template to be used in the preparation of the financial statements. This will assist management when implementing changes or updates, enabling automatic updates of notes through linked formula, improving the efficiency of the financial statement preparation.</p> <p>Management should complete this template for the 2011/12 accounts and include inbuilt checks to help ensure notes are cross referenced where applicable and all notes cast.</p>	<p><b>Management Response:</b></p> <p>Agreed</p> <p><b>Responsible Officer:</b></p> <p>Accounting and Budgeting Manager</p> <p><b>Implementation Date:</b></p> <p>31 March 2012</p>
2	2.19	<p><b>Equal pay claims</b></p> <p>Due to the potential risk to the Council, management should continue to actively management any developments in respect of equal pay claims.</p> <p>This should include regular briefings to Members.</p>	<p><b>Management Response:</b></p> <p>Agreed</p> <p><b>Responsible Officer:</b></p> <p>Head of Personnel and Corporate Personnel Manager</p> <p><b>Implementation Date:</b></p> <p>Throughout 2011/12 or until conclusion of the defence.</p>
3	2.20	<p><b>Valuations</b></p> <p>The Council should ensure all assets are subject to a formal valuation at least every five years.</p> <p>In addition, on an annual basis, the Council should ensure it is satisfied that property, plant and equipment is not materially misstated from its fair value by considering the implications from the valuations performed on other classes of assets and by conducting impairment reviews.</p>	<p><b>Management Response:</b></p> <p>Agreed</p> <p><b>Responsible Officer:</b></p> <p>Head of Property Services</p> <p><b>Implementation Date:</b></p> <p>31 March 2012</p>

Paragraph Reference		Recommendation	Response
4	2.20	<p><b>Revaluation reserve</b></p> <p>The Council is in the process of liaising with Oracle software developers to try to address these system issues in respect of revaluation reserves.</p> <p>This work should be completed to ensure the Council has a fit for purpose fixed asset module going forward.</p>	<p><b>Management Response:</b> Agreed</p> <p><b>Responsible Officer:</b> Corporate Finance Manager</p> <p><b>Implementation Date:</b> 31 March 2012</p>
5	3.13	<p><b>Statutory Performance Indicators</b></p> <p>At the time of our work, none of the Internal SPI Review Reports produced by the Financial Performance Section had been signed off.</p> <p>The Review Reports produced by the Financial Performance Section should be signed off by the appropriate senior manager on a timely basis in advance of review by external audit.</p>	<p><b>Management Response:</b> Agreed</p> <p><b>Responsible Officer:</b> Improvement and Risk Manager</p> <p><b>Implementation Date:</b> 31 July 2012</p>
6	5.20	<p><b>Members' expenses</b></p> <p>The Council should ensure that the agreed action plan is fully implemented for follow up as part of the 2011/12 audit.</p>	<p><b>Management Response:</b> Agreed</p> <p><b>Responsible Officer:</b> Corporate Finance Manager</p> <p><b>Implementation Date:</b> 31 March 2012</p>

## ***Appendix 2 – Audit reports issued in 2010/11***

<b>Report Name</b>	<b>Report Date</b>
Financial Challenge Review	November 2010
Members' Expenses Review	December 2010
2010/11 External Audit Plan	February 2011
Interim Management Letter 2010/11	June 2011
Follow up of 2009/10 audit recommendation 2010/11	June 2011
Improving Public Sector Purchasing (July 2009) – Local follow up	September 2011
Sustainable Waste Management (September 2007) - Local follow up	September 2011
Financial Audit 2010/11 Risk and Audit Scrutiny Forum presentation	September 2011

## Appendix 3 – ISA 260 Communications to those charged with governance

International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Those charged with Governance is taken to be the Members of the Risk and Audit Scrutiny Forum with responsibility discharged through the regular meetings of the Forum during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2010/11 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ Audit Planning document report to Risk and Audit Scrutiny Forum March 2011 confirmed there are no matters which we perceive may impact our independence and objectivity of the audit team.
Audit Approach and Scope	✓ Audit Planning document (reported to Risk and Audit Scrutiny Forum (March 2011)
Materiality	✓ Audit Planning document (reported to Risk and Audit Scrutiny Forum (March 2011). All unadjusted errors greater than £100,000 to be reported.
Form and Timing of Communications	✓ Audit Planning document (reported to Risk and Audit Scrutiny Forum (March 2011)
Accounting Policies/Estimates/Disclosures	✓ Significant matters are in respect of IFRS which is considered within this report.
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process and reporting in our interim management letter, follow up report and the presentation on the financial audit to the Risk and Audit Scrutiny Forum in September 2011.
Letter of Representation	✓ Signed by the Director of Finance and Corporate Resources on 29 September 2011.
Other matters significant to the oversight of financial reporting process and material uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ Discussed fraud arrangements with the Risk and Audit Scrutiny Forum members, review of internal audit findings and management throughout audit process.
Material Weaknesses in Internal Controls	✓ Internal Controls findings reported separately in our ‘Interim Management Letter 2010/11’ and the ‘Follow up of 2009/10 Audit Recommendations during the 2010/11 Audit’ reports.

*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.*

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