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***South Lanarkshire
Council***
**Financial Audit 2010/11
Risk and Audit Scrutiny
Forum Presentation
29 September 2011**

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1. Our Audit Opinion

- ✓ All audit adjustments requested by PwC have been processed by management.
- ✓ Our opinion for the year ended 31 March 2011 is unqualified.

Governance and internal controls statement

- ✓ Statement is in compliance with the Code and is not inconsistent with other information we are aware of from our normal audit procedures.

2. Financial Statements – Audit Process

- ✓ Financial Statements and supporting schedules received for audit within agreed timescales.
- ✓ Working papers provided were of a good standard.
- ✓ Council officers answered queries promptly ensuring an efficient audit process.

3. Significant Audit and Accounting Matters

Adoption of IFRS

The 2010/11 Statement of Accounts has been prepared for the first time on an IFRS basis.

Fundamental change to format and disclosures.

Significant and well planned work by Finance and other Departments

All audit disclosure adjustments processed

Contingent Liabilities – Equal Pay

Around 2000 equal pay claims have been lodged with the Employment Tribunal which in totality could be significant in volume.

The final outcome remains uncertain at this time as the employment tribunal pre-hearing review is at a preliminary stage.

✓ **Continued area of management attention**

✓ **The accounting treatment as a contingent liability is considered reasonable at this time.**

4. Financial Outturn 2010/11

- 2010/11 has represented a relatively stable year of income and expenditure for the Council.
- Against a backdrop of tightening budgets a General fund surplus of £2.000 million was generated.
- The Council delivered £19.767 million savings in 2010/11.
- The General fund surplus carried forward into 2011/12 of £8.476 million.
- In line with the 5 year reserve strategy the Council has available useable Council Reserves of £95.012 million.

5. Financial Outlook for 2011/12 and beyond

- 2011/12 will be a challenging year for the Council with reductions budgeted across the Council.
- However, the Council is forecasting that the General Fund and Housing Revenue Account will breakeven to 31 March 2012.
- The 2011/12 revenue budget is £696.705m (2010/11 budget £707.661m).
- The 2011/12 budget indicates savings of £25.137m are required.
- The Council's revised General Fund capital programme budget is £126.364m (2010/11 budget £128.517m).
- The Council will continue its Medium Term Reserves Strategy 2010/11 – 2013/14. With a targeted 2013/14 closing General Fund of up to £10m (2010/11 closing balance £8.476m).

6. Internal control and governance reporting

Interim Management Letter 2010/11

- Our report identified seven recommendations.
- Of these two were high priority in respect of the lack of a Director of Finance and the need to prepare and prioritise the Council's procurement strategy. In both cases these matters have been concluded in September 2011.
- The remaining recommendations were of a more routine nature and will be followed up in the normal course of our work in 2011/12.

Follow up of 2009/10 Audit Recommendations during the 2010/11 Audit

- Good progress has been made by the Council on the 24 recommendations followed up in this report.
- At June 2011, only four items remained in progress. We are satisfied that due to the nature of the actions, reasonable progress is being made to achieve the recommendation.
- One action in respect of the 2011 procurement capability assessment is not yet due for implementation.

6. Internal control and governance reporting (continued)

Members' expenses

- 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.
- 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.

Financial Challenge

- 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 the Council Members.
- 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.

6. Internal control and governance reporting (continued)

Early retirement of the Director of Finance and Information Technology

- 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.
- We concluded that:
 - the package provided was in line with the contract of employment, including early retirement;
 - the Council appropriately followed early retirement procedures;
 - HR and legal advice was sought where required;
 - the Director of Finance was available for special projects at the Council between 18 October 2010 and 18 April 2011; and
 - the decision to allow early retirement was made in respect of efficiency of the service and the corporate restructuring.

7. Likely Content of our 2010/11 Annual Report to Members and the Controller of Audit

Audit Opinion and Accounting Arrangements

- Audit Opinion
 - Clarification of Reporting Responsibilities
 - Transition to and first time adoption of IFRS
 - Equal Pay Treatment
 - Accounting issues and significant areas of judgement within the accounts
 - Unadjusted differences (if applicable)

Audit Opinion, Accounting Issues and Performance

- Financial out-turn for 2010/11
- Reserves and Reserve strategy
- Going concern
- Capital Performance 2010/11
- Performance Management arrangements
- Statutory Performance Indicators

Governance and Control Managing in a Period of Financial Uncertainty

- Overall Governance – Scrutiny Arrangements
 - Partnership Working
 - Risk Management and Internal Audit
- Internal Controls
 - NFI update and overview of fraud arrangements
 - Audit Scotland Reporting; Procurement Capability Assessment/Sustainable Waste Management

Managing in a Period of Financial Uncertainty

- Forecasted financial position 2011/12 and going forward
- Future Cost Pressures
- Efficiency Reporting
- Medium to Long Term Financial Planning

8. ISA 260 Communications to those charged with governance

ISA 260 requires external auditors to communicate certain matters to those charged with governance during the course of the audit; set out below are these key communications, together with reference to the relevant comments.

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	To be included in our Annual Report to Members and the Controller of Audit
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 this presentation.
Letter of Representation	To be signed by management 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.

9. Next Steps

Deliverable	Deadline
Audited financial statements signed by Management and Council Leader	29 September 2011
Financial Statements audit opinion signed by PwC	29 September 2011
Whole of Government Accounts to be completed	30 September 2011
Financial Statements sent to Audit Scotland by PwC	30 September 2011
PwC submit draft Annual Report to Members to Management	14 October 2011
Annual Report to Members and the Controller of Audit finalised and submitted to Council and Audit Scotland	19 October 2011
Set of signed audited Financial Statements and Annual Report to Members to be sent out to all elected members by Council Management	31 October 2011
Annual Report to be sent to Audit Scotland	31 October 2011
Annual Report and Audited Financial Statements presented to Executive Committee	16 November 2011

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