

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	16 December 2010
Report by:	Chief Executive

Subject:	Annual Report to Members 2009/2010
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Present the external audit Annual Report to Members.

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the report and management response is noted.

3. Background

3.1. External auditors have prepared an Annual Report to Members and the Controller of Audit. Copies have been passed to every Member of the Council and an explanatory report was presented to the Executive Committee on 1 December 2010.

4. Findings

4.1. A reminder of the seven main findings and management responses are included in Appendix One. The overall opinion of external audit is that the accounts of South Lanarkshire Council are "unqualified".

5. Employee Implications

5.1. Named officers have responsibility for delivering agreed external audit recommendations. Due dates have also been set. Delivery will be monitored and reported as performance measures.

6. Financial Implications

6.1. There are no specific financial implications associated with delivery of external audit actions.

7. Other Implications

7.1. Commentary on key risks facing the Council is provided in the Annual Report.

8. Equality Impact Assessment and Consultation Arrangements

8.1. There is no requirement to undertake an equality impact assessment.

8.2. External auditors consulted with senior officers of the Council and this is reflected in the management response to recommendations.

**Archie Strang
Chief Executive**

30 November 2010

Link(s) to Council Values/Improvement Themes/Objectives

- ◆ Improvement Theme: governance and accountability

Previous References

- ◆ Executive Committee paper 1 December 2010

List of Background Papers

- ◆ PricewaterhouseCoopers Annual Report to Members and the Controller of Audit

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Recommendation 1**Decisions in Response to Significant Funding Challenges Ahead**

As part of the initiatives to generate efficiency savings, management should consider the following key areas that our experience in other sectors has shown may be relevant in addressing the financial challenges ahead:

- ◆ Completeness and awareness of the size of the challenge
- ◆ Strong leadership
- ◆ Need to engage with the whole organisation and external stakeholders
- ◆ Realistic and detailed plans to resolve the situation
- ◆ Rigorous implementation (programme management arrangements)
- ◆ Financial control and discipline

Management Response:

Management agree with the 6 areas identified and with the need for flexibility in our plans. These elements remain fundamental for the Council's financial strategy and will be refined through the savings prioritisation exercise.

Recommendation 2**Debt Equity Exchange**

The report recommends that a comprehensive paper trail (including legal documentation and management decisions) is maintained for all Council transactions of a material or unusual nature and that transactions of this nature are only undertaken in exceptional circumstances with a sound business and legal case.

Management Response:

Management agree with the proposals detailed in the action plan.

Recommendation 3**Procurement**

The report recommended that the Council should closely monitor the actions it has put in place to address its sub-optimal procurement arrangements, with a view to ensuring it can demonstrate that it is achieving best value across the various performance categories.

Management Response:

Procurement arrangements and performance will be monitored and reviewed to ensure conformance with best practice.

Recommendation 4**Risk Management**

The Council should promote consistent risk management activity throughout the organisation, whereby the recording of mitigating controls and actions are applied regularly and uniformly.

Management Response:

The management of risk is promoted through Resource Risk Sponsors who are assigned the responsibility for embedding the management of risk. Since the 2009/10 annual risk management report, compliance levels in Resources have significantly improved and the performance indicator for delivery of risk controls actions has risen to 74%. Risk Management will continue to be given priority.

Recommendation 5

Internal Audit – Unplanned and Investigative Work

Internal audit adopt a revised reporting format for presentation at the Risk and Audit Scrutiny Forum, enabling forum Members to clearly understand the role of internal audit in unplanned and investigative work undertaken in respect of risk issues facing the Council.

Management Response:

The format of Forum papers will be revised to make clear whether Internal Audit or a Resource is investigating.

Recommendation 6

Internal Audit Workplan

Given the internal audit resources currently available to the Council, it is recommended that Internal Audit reconsiders all work planned for 2010/11, as well as the compilation of the 2011/12 internal audit plan, based on the contribution it will make to the significant risks and challenges faced by the Council. On this basis, internal audit work should be re-prioritised to ensure that appropriate value protecting and enhancing reviews take place on a timely basis, by appropriately qualified staff and with full quality review. Internal audit should therefore take the opportunity to re-align its resource capabilities and arrangements to those best practice arrangements being achieved by leading edge internal audit providers.

Management Response:

The audit planning strategy and the audit plan for 2011/12 will be shared with PwC as part of the usual consultation process for advice and comment prior to formal approval. However, it should be noted that in terms of the 2010/11 plan, only 25% of the plan remains to be started.

Recommendation 7

National Fraud Initiative (NFI)

Internal audit should be engaged to perform a follow-up review in respect of the NFI weaknesses identified in order to ensure the procedures implemented by management have been successful.

Management Response:

Follow up work is included in all audit plans.