

# North Lanarkshire Council

## Annual Report to Members 2006/07

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The Controller of Audit  
Audit Scotland  
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25 October 2007

Our ref: CDR/HB/MS

Ladies and Gentlemen

**Annual Report to North Lanarkshire Council Members and the Controller of Audit  
- External Audit 2006/07**

We have completed our audit of North Lanarkshire Council and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

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## Executive Commentary

### Audit Opinion

- Unqualified Audit Opinion for year ended 31 March 2007 (Section 2) with explanatory paragraph about the failure of two trading operations to meet statutory requirements to break-even over a three year period.

### Financial Performance

- Surplus of £20.135 million on the General Fund leading to a General Fund Reserve of £16.271 million carried forward to 2007/08, together with other specific reserves totalling £11.303 million. Deficit of £29,000 on the Income and Expenditure Account (Section 3).

### Audit Process and Accounting issues

- The financial statements and supporting schedules were presented for audit within agreed timescales and an effective working relationship has been established with Council staff.
- More significant audit matters resulting in adjustments to the draft annual accounts related to :
  - Fixed Assets;
  - FRS 17 pension disclosures; and
  - the consolidation of the North Lanarkshire Municipal Bank Ltd. into the Group Accounts
- Other significant matters which Management have agreed to review and, where appropriate, adjust in 2007/08 concern:
  - The revaluation of Fixed Assets
  - The treatment of Public Private Partnership (PPP) Contributions
  - Commercial Property

### Governance Arrangements

- Two reports relating to governance and control were submitted during the year. Both contained recommendations for improvement and are supported by Management action plans (Section 5 and 6).
- After the elections in May 2007, the Council reviewed its governance structure and adjusted it to mirror the change in the Council's services that came into effect from 1 April 2007 (Section 7).
- The Council has in place risk management arrangements at both corporate and service levels. Key risk for 2007/08 have been identified (Section 7).

### Performance Arrangements

- During 2006/07 the Council established a new Corporate Service Improvement Team in the final quarter of 2006/07. It is intended that the team will work with Services to support the development of appropriate performance measures at both strategic and operational levels that develop closer integration between performance information, service improvement plans and financial planning (Section 8).
- All Statutory Performance Indicators were graded an A (Data appears reliable in material respects) (Section 9).

# 1. Introduction

- 1.01 Our overall responsibility as external auditor of North Lanarkshire Council (“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.
- 1.02 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.
- 1.03 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.04 The Council and the Chief Financial Officer are, together with other matters, responsible for:
- Making arrangements for the proper administration of the Council's financial affairs and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
  - Selecting suitable accounting policies and applying them consistently;
  - Making judgements and estimates and that are reasonable and prudent in line with the Code of Practice on Local Authority Accounting in the United Kingdom; and
  - Maintaining proper accounting records.
- 1.05 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements present fairly the financial position of the Council as at 31 March 2007, and its expenditure and income for the year ended; and
  - Whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 1.06 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 of governance interest arising from the audit of financial statements to those charged with governance of an entity. Our previous reporting to the Audit and Governance Panel and this report discharges the requirements of ISA 260.

## **Acknowledgements**

- 1.07 We would like to thank all Council managers and staff involved in the audit for their assistance throughout the audit period.

# Financial Statements and Financial Position

## 2. Independent Auditor's Report

### Our Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion.
- 2.02 Our opinion on the accounts states that:
- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP (Statement of Recommended Practice), the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
  - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 2.03 Our Audit Opinion (Report) is **unqualified**. However, due to the fact that two of the trading accounts have failed to meet the statutory requirement to break-even over a three-year period, **we are required to include an explanatory paragraph to that effect within our Audit Report.**

### Failure to comply with a statutory requirement

*"It has not been necessary to qualify our opinion in respect of the following matter.*

*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. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2007 in respect of two such operations, the Catering and the Building Cleaning Statutory Trading Operations, due to the costs associated with equal pay back-dated claims provided for in the year ending 31 March 2006."*

- 2.04 Our opinion is set out in full in **Appendix 2**.

# 3. Financial Performance

## **Financial Statements 2006/07**

- 3.01 North Lanarkshire Council is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.
- 3.02 The 2006 Statement of Recommended Practice ("SORP") amended the presentation of the Council's financial statements. As a result, the statutory accounts for 2006/07 consist of five main statements and associated notes:
- the Council's Income and Expenditure Account which details the Council's income and expenditure for the year ended 31 March 2007 and replaces the Consolidated Revenue Account;
  - the Statement of the Movement on the General Fund;
  - the Statement of Total Recognised Gains and Losses;
  - the Balance Sheet as at 31 March 2007; and
  - the Cash Flow Statement.
- 3.03 In addition, the financial statements include the following supplementary statements:
- the Housing Revenue Account;
  - the Council Tax Income Statement;
  - the Non-Domestic Rates Income Statement; and
  - the Group Accounts and related notes.
- 3.04 The Council reported a small deficit of £29,000 on the Income and Expenditure Account for the year and a surplus for the year on the General Fund of £20.135 million. This resulted in a General Fund surplus of £16.271 million being carried forward to 2007/08. The movement between the Income and Expenditure deficit and the General Fund Surplus is explained below.

## **Financial Performance in 2006/07**

- 3.05 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.



## Income and Expenditure (I & E)

	<b>2006/07</b>
	<b>£'000</b>
Gross Expenditure	954,329
Income	(378,445)
<b>Net Cost of Services</b>	<b>575,884</b>
Other activities including PPP contributions, Trading undertakings, interest and gain on disposals	11,277
<b>Net Operating Expenditure</b>	<b>587,161</b>
<b>Income from taxation and government grants</b>	
Revenue Support Grant	(351,690)
Non-Domestic Rates	(119,857)
Council Tax	(115,585)
<b>I&amp;E Deficit for the year transferred to the General Fund</b>	<b>29</b>
Less: amounts required by statute and non-statutory proper practices*	(20,164)
<b>General Fund Deficit / (Surplus) for the Year</b>	<b>(20,135)</b>
Balance on the General Fund brought forward from 2005/06	3,864
<b>Balance on the General Fund carried forward</b>	<b>(16,271)</b>

\* these amounts include adjustments for depreciation, amortisation of deferred government grants, gains on the sale of fixed assets, amounts in respect of FRS 17 pension costs, debt repayment, capital expenditure funded from current revenue and transfer between reserves.

- 3.06 The deficit on the Income and Expenditure Account for the year of £29,000 is due a small excess of expenditure over income and represents only 0.005% of Net Operating Expenditure for the year. When adjustments are made for amounts such as depreciation and debt repayments which are required by the Local Authority Statement of Recommended Practice for 2006 (SORP 2006), the deficit on the Income and Expenditure Account becomes a General Funds surplus for the year of £20.135 million.
- 3.07 During 2005/06, the Council made provision of £23.5 million for costs expected to arise from back-dated claims relating to equal pay. This resulted in a deficit on the General Fund of £3.864 million being carried forward from 2005/06 into 2006/07.
- 3.08 As part of its 2006/07 budget setting process, the Council budgeted for an in-year surplus on the General Fund of £12.7 million, which would have allowed the 2005/06 deficit to be recovered and restore the General Fund balance at the end of 2006/07 to £8.8 million (£12.7 million surplus less £3.864 deficit brought forward). This is in line with the Council's reserves policy.
- 3.09 The table above demonstrates that the Council achieved an in-year surplus on the General Fund of £20.1 million, £7.4 million greater than planned. The key reasons for the variance in performance were:
- Commitments carried forward to 2007/08 (£1.883 million)
  - Savings on external borrowing costs (£0.352 million)
  - Improved PPP / Trading surpluses (£0.371 million)
  - Departmental expenditure review savings (£3.476 million)
  - Increase in Revenue Support Grant (£0.554 million)
  - Increase in local tax collection (£0.844 million)

### Capital Performance 2006/07

3.10 The Council's total capital budget for 2006/07 was £117.1 million. Actual expenditure during 2006/07 was:

	<b>£'000</b>
General Fund	78,565
Housing Revenue Account	<u>41,731</u>
	<u>120,296</u>

3.11 This represents an additional spend against budget of £3.2 million. The increase in capital expenditure resulted from additional spending on schools projects and was funded from additional receipts from the sale of assets, which were £4.7 million greater than expected.

### Other Reserves

3.12 In addition to the cumulative general fund balance of £16.3 million carried forward into 2007/08 the Council also hold funds in a number of other statutory reserves at 31 March 2007 as follows:

Reserve/Fund held	£m	Purpose of Reserve/Fund
Insurance Fund	8.197	Resources earmarked to meet outstanding claims.
Housing Revenue Account	3.106	Resources available to meet future running costs for council houses.

### Trading Operations

3.13 The performance of the Trading Operations is summarised below:

Trading Operation	Before Exceptional Item		2005/06 exceptional item – Equal Pay Provision	Actual Rolling three- year surplus or (deficit)
	2006/07 Surplus	Rolling three- year surplus		
	£'000	£'000		
Building Cleaning	344	659	(3,553)	(2,894)
Catering	290	441	(3,844)	(3,403)
Grounds Maintenance	532	1,472	(3)	1,469
Cleansing	40	486	-	486
Sport & Leisure Management	198	661	(53)	608
Transport	123	624	-	624

3.14 As noted in section 2 of this document, two of the trading operations, Building Cleaning and Catering, have failed to meet their statutory requirement to break-even over a rolling three year period and as a result, we have, as required, included an explanatory paragraph within our Audit Report.

3.15 The table highlights that the Catering and Building Cleaning trading operations did not meet the statutory target to break on a rolling three-year basis, due to the exceptional cost of back-dated equal pay claims provided for during 2005/06.

3.16 The size of the provision made for Building Cleaning and Catering means that it is expected that a rolling deficit will also be recorded in 2007/08.

3.17 The surplus recorded by Sport & Leisure Management: during 2006/07 is lower than in previous years.

This reflects the transfer of the trading operation's activities to the North Lanarkshire Leisure Trust during the financial year.

## **Financial Position 2007/08**

### **Revenue Forecast 2007/08**

- 3.18 At the start of the financial year, the Council was budgeting for an overall general fund breakeven position. However as at the period ending 14 September 2007, the Council was reporting a forecast surplus for the year on the General Fund of £1.213 million.
- 3.19 The projected surplus is due to an increase of £400,000 in Council Tax income, arising from increased householder numbers, and expected savings of £813,000 on net service expenditure. The services contributing to this reduction in expenditure are:
- Housing and Social Work Services (£478,000)
  - Finance and Customer Services (£135,000)
  - Chief Executive's Office (£110,000)
  - Miscellaneous Services (£60,000)
  - Corporate Services (£30,000)
- 3.20 The main reasons for the projected reduction in net expenditure are staff vacancies and efficiencies arising from restructuring exercises and the implementation of the Service and People First strategy.
- 3.21 Management identified a number of financial pressures, which were included within the original budget for 2007/08, the most significant of which are outlined below:
- Job Evaluation and equal pay claims – The Council has included £9.4 million within the budget to part fund the cost of implementation, which is estimated at approximately £13.4 million by 2007/08. Any costs over and above this amount will have to be funded from departmental budgets.
  - Energy Costs – The Council has experienced increases in the cost of gas and electricity. For 2007/08 this is anticipated to be an increase of up to £3 million compared with prior year costs.
  - Landfill Tax – Landfill tax is anticipated to increase year on year at £3 per tonne per year. Therefore, Management has anticipated the annual cost of landfill tax at £0.6 million.

### **Capital Forecast 2007/08**

- 3.22 The Council's non-HRA capital programme was set at £73.8 million, with a slippage allowance of £6.8 million, which would result in net expenditure of £67 million. The slippage allowance is included to reflect the value of capital work that cannot be completed during the financial year, which will be carried forward and completed in the next financial year.
- 3.23 As at period ending 14 September 2007, the Council's capital programme had increased to £79.5 million, reflecting additional funding received during the year. The projected out-turn was net capital expenditure of £68.6 million, with increased slippage of £10.9 million. The majority of the additional £4.1 million of slippage against planned expenditure is due to delays in Learning and Leisure projects. The Council is in the process of an exercise to identify areas in which capital spend can be brought forward.
- 3.24 The Council's capital programme for the Housing Revenue Account was set at £49.9 million and, as at 14 September, the projected out-turn was £45.5 million. The £4.4 million of slippage is largely due to kitchen and bathroom projects that have been delayed until 2008/09.

# 4. The Audit Process and Accounting Issues

## **Audit Process**

- 4.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. As this is the first year of our five year audit relationship with the Council, and the Council had made certain changes during the year to its arrangements for financial statement production, it was important that an effective working relationship was established. Overall, we believe that an effective working relationship has been established with your staff.

## **Preparation of Financial Statements**

- 4.02 The unaudited financial statements were submitted to the Council's Audit and Governance Panel on 26 June 2007 and signed by the Executive Director of Finance and Customer Services on 26 June 2007.

## **Misstatements and Significant Audit Adjustments**

- 4.03 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- 4.04 In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be recorded. Our expectation is, and audit regulations anticipate, that all non trivial differences (e.g. rounding) are adjusted.
- 4.05 As a result of our work, we proposed a number of audit adjustments to both the figures within and presentation of the Annual Accounts. Management has therefore made audit adjustments to the Balance Sheet, selected notes and some adjustments to the Income and Expenditure account.
- 4.06 Key areas of the unaudited Accounts to which adjustments were made include Fixed Assets; Financial Reporting Standards (FRS) 17 pension disclosures; and the consolidation of the North Lanarkshire Municipal Bank Ltd. into the Group Accounts.
- 4.07 In addition, there were a number of disclosure matters highlighted for adjustment to ensure compliance with the SORP and we are pleased to report that Management has processed all of these adjustments.
- 4.08 Auditing standards require us to bring any unadjusted errors to the attention of "those charged with Governance". During the audit, we identified a small number of minor errors relating to debtor and creditor balances, the overall net effect of which would impact the Income and Expenditure Statement by £13,627. We are of the view that these adjustments should have been made in the 2006/07 accounts, but it was agreed at the meeting of the Audit and Governance Panel on 27 September 2007 that management's decision not to adjust the identified errors in 2006/07 would be accepted given the relatively low financial impact of the amounts not adjusted and on the understanding that management would confirm at the next meeting of the Panel that the errors had been corrected for during 2007/08. We have been informed that the necessary adjustments have already been made in the 2007-08 ledger.

**Action Point 1**

- 4.09 As the unaudited Annual Accounts have changed since their production in June 2007 as a result of the audit process, we are firmly of the view that the Director of Finance and Customer Services ("the Director") should re-date the audited Accounts from June 2007 to late September 2007 (when the amended accounts were produced), whilst still reflecting in a note to the Accounts that the unaudited version was submitted and dated in June 2007. The Director has indicated however that, in the absence of any specific guidance or consistent interpretation across Scottish local government on this issue, he wishes to continue with the Council's previously adopted practice of dating the audited accounts in June 2007.

## Action Point 2

### Accounting Issues

- 4.10 During the course of our review we also identified the following matters, which we have brought to the attention of management. Due to the timescales and work required by NLC to resolve these matters, we have agreed that necessary adjustments will be made from 2007/08 onwards.

### Revaluation of Fixed Assets

- 4.11 In 2006/07, the council was engaged in its fourth year of a five year rolling revaluation programme of its non-HRA assets. Council dwellings (HRA assets) are re-valued each year using the Beacon Principal.
- 4.12 The SORP - Module 5, F7 states: *"A new valuation will give an accurate figure for the value of an asset in its current state, so any balances accumulated in relation to depreciation become redundant. This means that an authority should not carry both the new valuation and the accumulated depreciation in its balance sheet. The accumulated depreciation needs to be written out of the balance sheet. The mechanics for doing this are through the Fixed Asset Restatement Account."*
- 4.13 The Council is not meeting the requirements of the SORP when it performs its revaluations. The Council does not write any accumulated depreciation out of the balance sheet. Instead, it re-values the original Gross Book Value ("GBV") to the new valuation provided by the independent Valuer and then uplifts this new GBV by the amount currently sitting within the accumulated depreciation balance. Therefore, both the GBV and the Accumulated Depreciation balance are overstated in Note 4.1 of the Council's Annual Accounts. However, the Net Book Value of each asset is recorded in the balance sheet correctly, as both GBV and depreciation are overstated. This factor has enabled us to provide on this occasion an unqualified opinion on the Council's Accounts for 2006/07.
- 4.14 For Council dwellings, the annual revaluation using the Beacon Principal means that the error can be corrected in-year. However, for non-HRA assets, it will be necessary to work back through the 5 year rolling programme to identify the full overstatement included within the accounts. This overstatement of GBV and accumulated depreciation is expected to total several tens of millions of £s.
- 4.15 The Council has agreed that adjustments will be processed during 2007/08 such that the correct values for GBV and Accumulated Depreciation are shown in the accounts for 2007/08. In addition, the Council will ensure that the new fixed asset IT System, due to be introduced in December 2007, allows the correct figures to be calculated automatically in the future.

## Action Point 3

### Public Private Partnership (PPP) Contributions

- 4.16 When DLOs/DSOs were disbanded in 2000, NLC entered into 4 PPP joint ventures. The joint ventures provide the services previously provided by the relevant DLOs. The I&E account discloses income received from PPP contributions to the value of £2.040 million. This income is a mixture of dividend payments (£390,000) and discounts (deductions to agreed charge rates) from the contractors performing the PPP works (£1.65 million).

- 4.17 A credit note for the discount that has been negotiated is issued by the contractor. Of the total credit note balance, £1.65 million has been disclosed as income on the face of the accounts (after the Net Cost of Services line but within Net Operating Costs). A further £586,000 has been transferred as income to certain departments (being £200,000 to the Chief Executive's office to cover the costs of monitoring the contracts and £386,000 as income to the HRA).
- 4.18 We believe the full credit note element (the £1.65 million in addition to the £586,000) should be treated as a deduction from expenditure and allocated to the specific service lines on the face of the I&E; as the credit note represents a discount on a contract with third parties. All such transactions should be presented within Net Cost of Services rather than being included as Net Operating Costs after the Net Cost of Services line.
- 4.19 We have agreed with management that the accounting treatment within the financial statements will be amended in 2007/08 to include the value of credit notes within Net Cost of Services, thereby avoiding any future misstatement of Net Cost of Services.

#### **Action Point 4**

### **Commercial Property**

- 4.20 In 2006, Internal Audit undertook a review of significant trading operations within the Council. As part of the review, Internal Audit recommended that the Council should undertake a formal review of whether the Commercial Property function meets the criteria for inclusion as a trading operation. The Council subsequently undertook such a review and concluded that the function did not meet the criteria.
- 4.21 According to CIPFA, the recognition tests include:
- *Whether the service is provided in a competitive environment?*
  - *The service is provided on another basis rather than a straightforward recharge of costs?*
  - *Where trading accounts are necessary in order to demonstrate best value?*
- 4.22 From our review, it appears Commercial Property meets the criteria to be included as a Trading Operation, namely:
- The Operation rents out non-domestic properties, principally offices, to private businesses and individuals. The majority of properties are not rented to the Council or other public sector bodies. This would indicate the service is therefore operating in a competitive environment.
  - We were informed that the service is not provided on a recharge of costs basis
  - We consider at this time that a trading account would be required in order to demonstrate best value.
- 4.23 In order to determine whether Commercial Property should be treated as a Trading operation, the Council should undertake a further review of this activity during 2007/08. Management has agreed to share the methodology of the review with us, prior to the review and we will consider the outcome of the review.

#### **Action Point 5**

# Governance Arrangements

# 5. Systems of Internal Control

5.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard North Lanarkshire Council's assets.

5.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operational effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely on during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.

## Follow Up Report on previous control matters raised for action

5.03 We followed up the Council's progress in implementing recommendations made by the Council previous external auditors (Audit Scotland). Our Follow Up report was submitted to Management in February 2007.

5.04 Of the eighteen previously agreed recommendations, progress was reported as follows:

Status	Total
Action Implemented	10
Action in Progress	0
Not Yet Implemented	4
Not Yet Due	4
<b>Total</b>	<b>18</b>

5.05 The four actions which were reported at that time as not yet implemented were in respect of :

- **Implementation of the Single Status agreement:** continued delays to the full implementation of the Single Status agreement beyond the pay and grading model implemented in November 2006 will increase the associated costs to the Council and may have a negative effect on the morale of staff. It is therefore an issue that the Council should seek to resolve at the earliest opportunity. We were informed that the Single Status agreement was signed on 19 October 2007 and implementation is planned for 1 November 2007.
- **Review of the revised Sickness Absence policy:** this review will help the Council to assess the effectiveness of the new sickness absence policy and to determine whether additional steps might be required in order to improve the Council's sickness absence levels.



- **An exercise to simulate full scale systems failure within the Payroll Department** – by undertaking such an exercise, the Council may become aware of previously unidentified issues in a controlled environment that would allow plans to be put in place to manage those issues should a genuine systems failure occur.

5.06 Management included a revised action plan to address the outstanding recommendations and has informed us that actions have been taken against all of the points noted above since the issue of the report. We will follow up the progress made against this Action Plan during our 2007/08 audit.

#### **Action Point 6**

### **Financial Systems and our 2006/07 Internal Controls Report**

5.07 Our Internal Controls Report dated April 2007 was presented to the Audit and Governance Panel in June 2007. It summarised the work performed during our interim audit visit, which focused on the following areas:

#### **Financial Statements**

- Financial management and budgetary control
- The legality of financial transactions

#### **Governance Arrangements**

- Governance
- Internal Audit
- Arrangements for the prevention and detection of fraud and corruption
- Rotational review of key systems of financial control

#### **Performance Management**

- Performance Monitoring arrangements
- Arrangements for securing value for money

5.08 The report contained 33 recommendations to improve controls, 3 of which were graded as high risk. These were:

- **Reporting on Service Improvement Plan (“SIP”) targets:** The Council should consider whether departments should report progress against SIP targets to the relevant Departmental Committee on a more frequent basis, for example, every other meeting (i.e. every 16 weeks).
- **Disaster Recovery Plan:** A corporate disaster recovery plan should be implemented and tested.
- **Journal Processing:** Finance and Customer Services should establish a clear policy regarding the authorisation levels for journal processing. Appropriate guidance should be made available to all General Ledger users detailing the appropriate documentation required for a specific journal entry.

5.09 The Council completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

- 5.10 As with our Follow Up Report 2006/07, management has informed us that the agreed actions included within the Action Plan have either been implemented or are in progress. We will follow up the action plan during our 2007/08 audit.

#### **Action Point 6**

#### **Final Control Letter**

- 5.11 A further six control matters were identified during the course of the final audit. These were all of a minor house-keeping nature and have been reported in a Final Control Letter to the Executive Director of Finance and Customer Services.

#### **Statement of the System of Internal Financial Control**

- 5.12 The Code of Audit Practice requires us to review and report on the Statement of Internal Financial Control given under the relevant code before its publication.
- 5.13 The Council has followed the illustrative example format for its statement as set out in the SORP 2006 and has outlined the processes designed to identify and evaluate risks.
- 5.14 In addition, key elements of the Council's control framework have been highlighted including the work of the management, internal audit, various external review agencies, and the performance and financial reporting to the Council.
- 5.15 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

#### **Internal Audit's Report on the Council's Internal Controls**

- 5.16 The Statement on the System of Internal Financial Control makes reference to the work of Internal Audit during the year.
- 5.17 In addition, we are required by International Statement of Auditing Standard (ISA) 610, "Considering the Work of Internal Audit" to consider the extent to which we may place reliance on the work of internal audit. From our review of internal audit, we are pleased to report that we were able to place reliance on a number of the reviews undertaken during the year.
- 5.18 An extract from the Internal Auditor's opinion for 2006/07 is reproduced below:

#### **"Basis of Opinion**

*My evaluation of the control environment is informed by a number of sources:*

- *The audit work undertaken by internal audit during the year to 31 March 2007;*
- *The assessment of risk completed during the preparation of the 2006-2007 annual plan;*
- *Assessments of the general control environment within individual Departments in 2006-2007 completed by relevant Directors;*
- *Reports issued by the Council's external auditors during 2006-007, Audit Scotland / PricewaterhouseCoopers, and other review agencies such as HM Inspectorate of*
- *Education, the Care Commission, Social Work Inspection Agency and Communities Scotland; and*
- *My knowledge of the Council's corporate governance, risk management and performance management arrangements.*

#### **Opinion**

*It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2007."*

# 6. Prevention and Detection of Fraud and Irregularities

## **Responsibility with respect to fraudulent and/or illegal acts**

- 6.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 6.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected. Accordingly, we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected.

## **Council Policies**

- 6.03 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Council's fraud and corruption internal policy and regulations for members and staff conduct. No significant weaknesses were identified through our reviews of these policies.
- 6.04 In addition, our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

## **Fraud Guidance**

- 6.05 We have reviewed the guidance issued by Audit Scotland during 2006/07, in particular Technical Bulletins, Notes for Guidance and relevant Urgent Issues Notes, and undertaken work accordingly. There were no matters arising from this work that we require to report to you.

## **Fraud Submission**

- 6.06 A return prepared with the assistance of Internal Audit has been made to Audit Scotland of the reported frauds that have been reported within the Council during the year.
- 6.07 There were twenty-one cases of Housing Benefit / Council Tax Benefit fraud identified, the majority through data-matching exercises including the National Fraud Initiative. The value of these cases was £215,930. A further three cases of thefts of equipment, fuel and money during 2006/07 amounted to £138,052, much of which has been recovered through insurance claims.

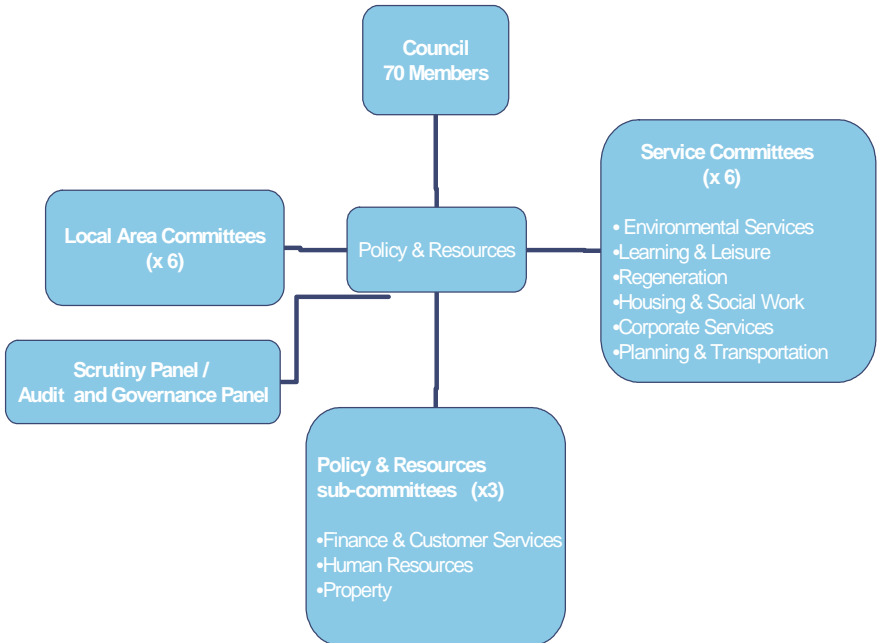
## National Fraud Initiative

- 6.08 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from councils, police and fire and rescue bodies, health 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. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005).
- 6.09 The NFI 2006/07 results (data matches) were made available to audited bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
- 6.10 The Council is still working through the matches identified. No instances of fraud have been identified from the work performed to date in relation to payroll to payroll matches and data matches involving housing rents, rent arrears and right-to-buy.
- 6.11 The Council has identified a number of cases where it had paid private residential care homes for short periods after the death of residents. Where this is the case, the Council is in the process of quantifying potential repayments and savings.
- 6.12 A progress report was submitted to the Audit Commission on 30 September 2007, indicating that savings of approximately £39,000 had been identified from data-matching of housing benefits records to date. Work on the outstanding data is on-going.

# 7. Other Governance Matters

## Governance Arrangements in place at North Lanarkshire Council

- 7.01 Our Internal Controls Report, presented to the Audit and Governance Panel in June 2007 considered the Council's overall governance arrangements including the Council's Committee structure, Scheme of Delegation, scrutiny arrangements and reporting to Members.
- 7.02 The Council's broad Governance Structure is set out below:



- 7.03 This section of our Annual Report outlines the impact on the Council since the elections in May 2007 and in particular outlines the Council's arrangements for and action taken to date in respect of the following key areas of governance:
  - Impact of the Local Government Elections;
  - Councillors - role and training; and
  - Risk Management Arrangements.

## Impact of Local Government Elections

- 7.04 The Council did consider in advance potential outcomes of the election and was expecting a significant number of new Councillors after the local elections in May 2007. The table below shows how the political make-up of the Council changed as a result of the elections:

Party	Pre-election numbers	Post-election numbers
Scottish Labour Party	53	40
Scottish National Party	14	23
Scottish Liberal Democrat	-	1
Scottish Conservative and Unionist	-	1
Independent	3	5
<b>Total</b>	<b>70</b>	<b>70</b>

- 7.05 Potential governance issues were reviewed by management and Members in the run up to the election and papers were produced to set out different options for governance arrangements, such as potential changes to the Committee structure.
- 7.06 The Council planned a two week gap between the election results and the first statutory meeting of the Council. The first meeting of the Council was held on 17 May 2007, at which time governance arrangements were discussed and agreed.
- 7.07 The Committee structure was also updated to mirror the change in the Council's Services that came into effect at the beginning of 2007/08. This is reflected in the diagram above.

### Councillors – role and training

- 7.08 There are job descriptions recorded on the Council's website for different roles within the Council:
- Council Leader
  - Committee Convenors
  - Elected Members
- 7.09 In addition, the Council has a Scheme of Administration in place that sets out each Committee's remit and levels of authority.
- 7.10 The induction programme for new Members was run in 2 stages with the first stage in early May 2007 and the second stage in June 2007. There is a Members Training and Development Programme for existing members, which includes monthly training seminars.
- 7.11 Councillors are also asked to complete an Annual Training Consultation Survey in an attempt to identify any additional training requirements. Financial support is made available to councillors who wish to participate in a range of courses relevant to their role.

### Risk Management Arrangements

- 7.12 As reported in our Internal Controls Report 2006/07, the Council has arrangements in place for the management of risk. There is a Risk Management Working Group which considers corporate risk, while each department compiles and maintains its own Risk Register which is scrutinised by the Risk Management Working Group on an annual basis.

- 7.13 The Council has identified key corporate risks for 2007/08 and responsibility for monitoring these risks has been allocated to specific officers.
- 7.14 The Council has recognised the importance of further improving the consistency and quality of Services risk registers and has plans in place to achieve progress in these areas. Agreed actions for addressing this were included within our Internal Controls Report.

#### **Partnership Working / Shared Services**

- 7.15 Audit Scotland's Community Planning report identified a number of areas of good practice within the Council, including the North Lanarkshire Partnership (NLP) Information Sharing Group and the rolling reporting on progress to the NLP Board. The structure of the NLP Community Plan was also reported as praiseworthy for its links between strategic themes, 4-year priorities and targets.
- 7.16 We reported in our Internal Controls Report that the Council was in the process of updating its Community Plan for the period 2008 – 2012. As part of the overall review and consultation process the Council and community planning partners have committed to:
- review the operating effectiveness of the partnership;
  - review and agree on future objectives and priorities and that these are incorporated into partners corporate plans;
  - review and streamline the number of partnership decision making structures;
  - review and update Partnership Agreement protocols; and
  - review performance targets and monitoring arrangements to ensure progress can be tracked at both a strategic and local level. This exercise will take account of the evaluation framework outlined in Audit Scotland's report on Community Planning.
- 7.17 Since the election, the Council has agreed to develop the Community Plan jointly with the Corporate Plan 2008 – 2012, and developed a timetable for completion of both plans by January 2008.

Performance



# 8. Performance Management Arrangements

- 8.01 The Council has developed a structured approach to performance management. New performance management arrangements were introduced in 2006/07, which supplemented existing Statutory Performance Indicators (SPIs) with a range of additional performance measures designed to measure financial performance, risk, quality, customer satisfaction and progress against planned improvement actions from Service Improvement Plans (SIPs).
- 8.02 In 2006/07 performance monitoring arrangements involved quarterly exception reporting to service committees with services expected to report on performance against targets and significant variances. Performance information was also reported regularly to senior management and to the Scrutiny Panel.
- 8.03 Following the introduction of the Council's Service and People First change programme, in the final quarter of 2006/07 a new Service Improvement Team has been established. We were informed that it will work with Services to support the development of appropriate performance measures at both strategic and operational levels that develop closer integration between performance information, service improvement plans and financial planning.
- 8.04 Performance management reporting for 2007/08 is expected to further focus on exception reporting at Committee level, although departments will still be expected to maintain records of performance against all targets. The Council also plans to undertake work towards the introduction of a Council-wide performance management IT system, which is expected to improve timeliness, consistency and quality of the performance reporting.

# 9. Performance Indicators

- 9.01 The Local Government Act 1992 places a duty on Councils to ensure they have in place such arrangements for collecting, recording and publishing performance information as are required to comply with a Direction.
- 9.02 The Accounts Commission published “The Publication of Information (Standards of Performance) Direction 2005” (“the 2005 Direction”) in November 2005, to apply to the financial year 2006/07.
- 9.03 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate. There are 56 Performance Indicators (“PIs”) in total, all of which have to be graded as either ‘A’, ‘X’, ‘FTR’, or ‘N/S’ as follows:
- A:** The data appears to be reliable in material respects.
  - X:** The lack of available systems, and/or reliable data, and/or decision rules has resulted in the Council producing information which, in the auditor’s view is unreliable.
  - FTR:** The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a ‘Failure to Report’.
- 9.04 We have a duty to “be satisfied that the Council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that , so far as practicable, everything published is accurate and complete”.
- 9.05 We are pleased to report that all performance indicators were graded “A”; the data appears to be reliable in material respects.
- 9.06 Overall, the quality of systems used for data collection and analysis, and supporting documentation provided to us was of a good standard, for which Council Management should be commended.

# 10. Other Business Issues

10.01 This section of the report includes commentary on business issues identified through Audit Scotland's Priorities and Risks Framework as topical issues at the national level. We have set out below the Council's position in respect of these matters.

## Efficient Government

10.02 The Scottish Executive's Efficient Government plans focus on five key areas for efficiency gains: Procurement; Asset Management; Streamlining Bureaucracy; Shared Support Services; and Absence Management and local government has been asked to contribute cash savings of £327 million to the overall target of £1 billion in the 3 year period from 2005/06 to 2007/08.

10.03 COSLA agreed to submit a consolidated local government return to the Scottish Executive in 2006/07. In order to facilitate this, the Council prepared an Efficiency Statement for 2006/07 that identified efficiency savings during the year as follows:

	Cash Savings (£ million)	Non-Cash Savings (£ million)
Procurement	2.212	0
Managing absence	0.250	0.550
Asset Management	2.172	0
Streamlining Bureaucracy	2.447	0.024
	0.877	0
	<b>7.958</b>	<b>0.574</b>

*Savings identified by Management have not been subjected to external audit*

10.04 The Council has recognised the importance of a robust process for measuring efficiencies, so that all efficiency gains can be properly substantiated. Due to the late issue of guidance to local authorities on the detailed requirements for 2006/07, the Council recognises that there is a need to further develop its arrangements. The Council intends to develop the arrangements in place during 2007/08, in particular by producing an Efficient Council Plan that will be linked to the three-year Financial Plan.

**Action Point 7**

10.05 The Council's future targets in relation to Efficient Government targets will be included in the new three year financial plan, Efficient Council Plan and Service Plans.

## Equal Pay and Single Status

- 10.06 The Council has been negotiating for some time with the Trade Unions in order to develop an agreed Pay and Reward system that meets the requirements under the Equal Pay Act. The Council agreed that arrangements would be made to implement the Single Status pay and grading model with effect from 6 November 2006. All new employees affected by the Job Evaluation Scheme have been moved onto the new pay and grading model. The Council estimates that current pay costs will as a result increase by over £6 million in 2007/08 and 2008/09. This is equivalent to approximately 1.5% of total payroll costs.
- 10.07 The Council provided £23.5 million in 2005/06 to cover compensation claims relating to past equal pay liabilities. This was based on a 90% acceptance rate on compensation packages with 10% expected to result in a tribunal. During 2006/07, £9.9 million was paid out to employees leaving a balance on the provision of £13.6 million.
- 10.08 Following implementation of the pay and grading model in November 2006, discussions continued on conditions of service with an improved package to be the subject of trade union ballots. In August 2007, the trade unions which were signatories to the Red Book Collective Agreement concluded ballots of their members on the proposed core conditions of service package that had been negotiated between the Council and the trade unions.
- 10.09 The proposed package covers arrangements for pay cycles and core conditions on:
- Hours of Work;
  - Other non standard payment arrangements;
  - Overtime and Overtime payments;
  - Standby, Recall to work and Higher duties payments;
  - Annual Leave year, entitlement and general annual leave conditions;
  - Public Holidays;
  - Retirement age;
  - Notice;
  - Service, previous service and reckonable service (craft workers only);
  - Mileage payments; and
  - Grievance policy and Disciplinary policy.
- 10.10 The Council secured a collective agreement signed by all parties on 19 October 2007 and plans are progressing on the basis of an implementation date of 1 November 2007. Once the agreement has been concluded, this will achieve the outstanding requirement of the Red Book agreement to harmonise conditions of service and will address residual equal pay risks.

# Appendix 1: Action Plan

Action Point	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
1 (Para 4.09)	Management should ensure that the unadjusted errors identified during the 2006/07 external audit are adjusted in the 2007/08 ledger.	<b>MEDIUM</b>	The unadjusted errors have been adjusted in the 2007-08 ledger.	Head of Financial Services	October 2007
2 (Para 4.10)	The Council should endeavour to resolve with us, as their external auditors, the appropriate date to be recorded on the audited financial statements.	<b>MEDIUM</b>	Discussions with a view to resolution will be undertaken in 2007-08.	Executive Director of Finance and Customer Services	March 2008
3 (Para 4.17)	The Council has agreed that adjustments are processed during 2007/08 such that the correct values for Gross Book Value (GBV) and Accumulated Depreciation are shown in the accounts for 2007/08. In addition, the Council has agreed to ensure that the new IT System, due to be introduced in December 2007, allows the correct figures to be calculated automatically in the future.	<b>MEDIUM</b>	<ul style="list-style-type: none"> <li>- Finance and Customer Services will take the necessary steps to ensure that the figures for Gross Book Value and Accumulated Depreciation figures are recalculated correctly for inclusion in the 2007-08 accounts</li> <li>- Management will review the detailed operations of the new IT system and ensure that the system is capable of producing the necessary figures for future accounting periods. If this is not possible in the required timescale, management will ensure that the exercise is conducted manually to ensure that the correct figures are provided for the 2007-2008 accounts</li> </ul>	<p>Head of Financial Services</p>          <p>Head of Financial Services</p>	<p>December 2007</p>          <p>March 2008</p>

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
4 (Para 4.21)	We have agreed with management that the accounting treatment of the PPP Contributions within the financial statements will be amended in 2007/08 to include the value of credit notes within Net Cost of Services.	LOW	The accounting treatment of the PPP contributions will be amended in line with the external auditor's recommendation.	Head of Financial Service	March 2008
5 (Para 4.25)	In order to determine whether Commercial Property should be treated as a Trading operation, the Council should undertake a further review of this activity during 2007/08. Management has agreed to share the methodology of the review with us, prior to the review.	MEDIUM	The Council will undertake a further review of the Commercial Property function to assess whether or not it meets the criteria to be designated as a trading operation. The Council will discuss the proposed methodology with the external auditor.	Head of Property Services and Head of Financial Services	March 2008
6 (Paras 5.06 & 5.10)	Management should ensure the recommendations included within our previous reports are implemented in line with the agreed timescales set out in the Action Plans.	HIGH MEDIUM LOW (According to the risk categories for individual recommendations)	Agreed	Various per management responses and planned actions in previous audit outputs	Various per management responses and planned actions in previous audit outputs
7 (Para 10.04)	Management should ensure that planned improvements to the process for measuring and recording efficiency savings are in place to allow full reporting of savings in the 2007/08 Efficiency Statement.	MEDIUM	Agreed	Executive Director of Finance and Customer Services	March 2008

# Appendix 2: Audit Opinion

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

We certify that we have audited the financial statements of North Lanarkshire Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, and the Group Accounts and the related notes. The financial statements do not include the Foreword to the Accounts, the Responsibilities for the Statement of Accounts, the Statement on the System of Internal Financial Control and Financial Performance. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read certain other information published with the financial statements, and consider whether it is consistent with the audited financial statements, the financial statements being the only part of the Annual Accounts 2006/07 which we have audited. This other information comprises only the Foreword to the Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority and its group circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

### **Failure to comply with a statutory requirement**

It has not been necessary to qualify our opinion in respect of the following matter:

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. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2007 in respect of two such operations, the Catering and the Building Cleaning Statutory Trading Operations, due to the costs associated with equal pay back-dated claims provided for in the year ending 31 March 2006.

PricewaterhouseCoopers LLP  
Glasgow

28 September 2007

Notes:

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



# Appendix 3: Other Formal Reports Submitted During the 2006/07 Audit Process

## Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

### *Submitted to the Council and Audit Scotland*

- Outline Audit Plan 2006/07
- Follow up of 2005/06 Outstanding Recommendations
- Internal Controls Report
- Annual Audit Opinion
- Annual Report to Members
- Final Management Letter

### *Submitted to Audit Scotland*

- PRF Return Submitted to Audit Scotland
- Fraud Return
- Statutory Performance Indicators

# Appendix 4: Responsibilities of External Audit and the Council and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of North Lanarkshire Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist North Lanarkshire Council regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with North Lanarkshire Council and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to North Lanarkshire Council or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with North Lanarkshire Council. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of North Lanarkshire Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of North Lanarkshire Council to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of North Lanarkshire Council to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that North Lanarkshire Council has put in place to secure economy, efficiency and effectiveness in its use of resources. For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to North Lanarkshire Council during the year as listed at **Appendix 6**.

## **Materiality**

Materiality is defined by the International Accounting Standards Board in the following terms:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

## **Management’s Judgments and Accounting Estimates**

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

## **Audit independence**

As external auditors of North Lanarkshire Council we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

**Freedom of Information (Scotland) Act 2002**

*This report is intended solely for the information of the Members of the Council of North Lanarkshire Council and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. North Lanarkshire Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and North Lanarkshire Council shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, North Lanarkshire Council discloses this External Audit 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. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.*

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