

# North Lanarkshire Council

Annual Report to Council Members and the  
Controller of Audit for the year ended 31  
March 2009

# Contents

Section	Page
1. Introduction.....	1
2. Executive Commentary.....	2
3. Audit Opinion and Accounting Issues.....	4
4. Financial Management and Performance 2008/09.....	7
5. Financial Forecasts for 2009/10 and Beyond.....	10
6. Governance and Performance Management.....	13
7. Systems of Internal Control.....	17
Appendix A – Action Plan.....	19
Appendix B - Communications to Management.....	22

The principal objective of our audit procedures is to enable us to meet with the requirements of the Audit Scotland Code of Audit Practice and to express our opinion on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at North Lanarkshire Council or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

# 1. Introduction

## Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement. The Report is not only addressed to Members, but it is also addressed to the Controller of Audit who appoints us and as such is a consolidation of all key issues considered / reported previously by us to the Council during 2008/09

## Scope of the Audit

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.

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 Controller of Audit and other auditors such as Audit Scotland's Local Government Public Reporting Group and the Best Value Team.

Our audit has been planned and conducted to take account of these wider perspectives.

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 Report to Members, together with our reports to the Audit and Governance Panel throughout the year, discharges the requirements of ISA 260. (as set out in Appendix B)

## Acknowledgment

We would like to formally extend our thanks to all North Lanarkshire Council Officers for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow  
G2 7EQ  
2 October 2009

## 2. Executive Commentary

### Audit Opinion and Accounting Issues (Section 3)

Our audit opinion for the year ended 31 March 2009, which is in the format prescribed by Audit Scotland, is **unqualified**.

A number of significant accounting issues arose and were discussed with management during the audit. The most significant of these are set out below:

- The valuation of council dwellings;
- Equal pay and single status;
- International Financial Reporting Standards; and
- Treatment of PPP Schools.

### Financial Management and Performance 2008/09 (Section 4)

The Council reported a deficit on its general fund of £6.822 million at 31 March 2009. This outturn reflects a favourable variance against the budget forecast of a £10.495 million deficit.

In February 2008, the Council approved a revised composite capital expenditure budget for the year 2008/09 of £82.427 million. At period 7 the capital programme was increased to £110.912 million. As part of a mid-year exercise the Council then identified slippage in the 2008/09 composite capital programme of £34.536 million. The final composite capital programme spend for the year ended 31 March 2009 was £77.794 million.

The final HRA capital programme outturn was £43.428 million with £4.872 million slippage.

Management has committed to enhance the process in place to control and monitor progress of capital spending.

Each of the Councils Trading Operations achieved a surplus in 2008/09 and at least a break even position over the three year period to 31 March 2009.

### Financial Forecasts for 2009/10 and Beyond (Section 5)

The Council's 2009/10 revenue budget is £783.755 million and reflects a number of cost pressures including pay inflation, job evaluation increments and energy cost inflation. The budget also takes account of investment in priority areas and also an efficiency savings target.

The Council has produced a Financial Plan for the period 2008/09 to 2010/11. The timeframe for this plan ties in with the Scottish Government's Spending Review period. A ten year financial model has also been developed by the Council to cover the years 2008/09 to 2017/18. This is a new process that continues to be developed.

The future financial pressures facing the Council are likely to be significant as a result of likely government funding reductions coupled with the cost impacts of the economic recession, demography and policy decisions.

The Council should review and update its ten-year financial model to recognise trends and pressures that will influence its longer-term financial strategy. The financial plan should be used to assist that the right strategic approach and service delivery models are in place to meet the scale of the challenge identified.

## Governance and Performance (Section 6)

Our Internal Controls Report (presented to the Audit and Governance Panel in May 2009) and our Business Issues Report (presented to the Audit and Governance Panel in September 2009) provided commentary on the Council's Governance and Performance Management arrangements in respect of the risks faced by the Council. This work has been summarised in Section 6 of this report and highlights the key areas of work including:

- Asset Management;
- Procurement;
- Information Governance;
- Workforce Planning;
- Partnership Working;
- Sustainability;
- Arms Length Organisations;
- Performance Management.

## Systems of Internal Control (Section 7)

The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control given under the relevant code before its publication. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement on Internal Control included within the annual financial statements.

Our Internal Controls Report was finalised in May 2009. The report contained 11 recommendations to improve controls, two of which were graded higher risk.

Management should ensure the timely actioning of these recommendations and outstanding recommendations reported by us in 2007/08.

# 3. Audit Opinion and Accounting Issues

## Audit opinion

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. Our opinion sets out the responsibilities of the financial officer and the auditor and the basis in which we have formed our opinion.

Our opinion on the financial statements sets out the respective responsibilities of management and the auditors, and concludes on whether the statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP (Statement of Recommended Practice on Local Authority Accounting), of the financial position of North Lanarkshire Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Our opinion for the year ended 31 March 2009, which is in the format prescribed by Audit Scotland is **unqualified**.

## Audit Process

The draft financial statements and supporting schedules were made available to us at the start of our audit in line with the agreed timetable.

The quality of the working papers prepared by management were of a very good standard and we believe a good working relationship exists between ourselves and your officers. Overall, an effective audit process was achieved throughout the year.

## Preparation and Approval

The draft financial statements were signed by the Executive Director of Finance and Customer Services on 29 June 2009 and submitted to the Controller of Audit by the deadline of 30 June 2009. Co-operation between management and ourselves has ensured the timely completion of audited financial statements by 30 September 2009.

## Unadjusted misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance" - 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 (i.e. items less than £50,000 in value).

As a result of our work, we proposed a number of audit adjustments. These have all been processed by management in the final version of the 2008/09 financial statements.

## Group Accounts

As part of the financial statement process, in accordance with the SORP, the Council has prepared group accounts. Grouped within the Council's accounts are:

- Broadwood Stadium (Cumbernauld) Ltd
- Campsies Centre (Cumbernauld) Ltd
- Time Capsule (Monklands) Trust Ltd
- North Lanarkshire Leisure Ltd
- Amey Roads (North Lanarkshire) Ltd
- Maintenance and Property Care Ltd
- Saltire Facilities Management Ltd
- Strathclyde Fire and Rescue Board;
- Strathclyde Police Joint Board;
- Strathclyde Passenger Transport Authority;
- Strathclyde Concessionary Travel Scheme Joint Board;
- Lanarkshire Valuation Joint Board;
- Fusion Assets Ltd

Each of these bodies within the Council group is subject to individual external audits and audit opinions.

## Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

### Carrying Value of Council Dwellings – Current Year

The valuation of Council Dwellings had been carried out by qualified personnel from the Council's Property Services as at 1 April 2008 and updated for any changes in the number of properties held by the Council in the period from 1 April 2008 to 31 March 2009. This treatment complies with the SORP (Statement of Recommended Practice on Local Authority Accounting).

The Council however disclosed this valuation as its final net book value (NBV) at 31 March 2009 within the draft accounts submitted for audit. This was incorrect. This valuation at 1 April 2008 should have been adjusted in-year for the following:

- Depreciation - £18 million
  - Capital Additions - £44 million
- } Net £26 million

As a result, the Net Book Value for the Council Dwellings was understated by £26 million. **Management has processed the necessary correcting adjustments.**

### Equal Pay and Single Status

Following a job evaluation exercise, the Council implemented a new pay and grading structure on 6 November 2006. A revised agreement to achieve Single Status conditions of service was implemented on 1 November 2007. In common with many other local authorities, the Council has received a number of equal pay claims from Council staff.

In order to manage the costs associated with these matters the Council created an equal pay claims provision of £23.5 million in 2005/06. Total spend against this provision to the end of the 2008/09 financial year is £12.809 million leaving a balance of £10.691 million. The Executive Director of Corporate Services continues to monitor the adequacy of this equal pay provision on behalf of the Council.

### Other Final Audit Matters

During the year we also reviewed a range of other areas agreeing Management's treatment through audit testing and constructive dialogue. Examples include:

- Carrying value of council dwellings – Prior Year;
- Statement of Recognised Gains and Losses Disclosure;
- Municipal Bank Disclosure;
- Accelerated depreciation of negative assets;
- Additional capital receipts disclosure; and
- Treatment of PPP Schools disclosure.

## International Financial Reporting Standards

The Chancellor's announcement in the 2008 Budget (paragraph C103) introduced the requirement for government bodies, including local authorities, to adopt IFRS for 2010/11, including the restatement of 2009/10 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

The conversion to IFRS represents the largest and most complex change to public sector accounting for over 10 years. IFRS conversion is a change in UK Generally Accepted Accounting Principles (GAAP), which means that many people across the organisation must become familiar with a new accounting and reporting language.

In order to prepare IFRS compliant accounts in 2010/11, the Council will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures.

The Council will also need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis. In order to restate the 2009/10 closing balances under IFRS, the Council will be required to recalculate its opening balance sheet as at 1 April 2009 on an IFRS basis.



# 4. Financial Management and Performance 2008/09

## Financial Performance for year ended 31 March 2009

Extracted from the Income and Expenditure Account:	£m
Net operating expenditure	(875.018)
Income received (Council Tax, Government Grants and Non Domestic rates)	<u>707.576</u>
<b>Deficit in year</b>	<b>(167.442)</b>
Adjustment for net additional amount required by statutory and non-statutory practices to be debited and credited to the General Fund in year (including FR17 pension costs and fixed asset depreciation charges)	<u>160.620</u>
<b>General Fund Deficit for Year</b>	<b>(6.822)</b>
General Fund surplus balance brought forward from 2007/08	<u>27.016</u>
<b>General Fund Balance carried forward to 2009/10</b>	<b><u>20.194</u></b>

## Revenue Expenditure 2008/09

The net deficit for the year was £6.822 million giving a favourable variation against the deficit budgeted of £10.495 million. This favourable position was primarily driven by the following items:

- **Savings on External Borrowing** - The Council achieved debt management savings of £1.421 million through the early redemption of market loans and higher than estimated investment income in the first half of the year.
- **Service Expenditure Reviews 2008/09** – In response to the developing market conditions the Council reviewed all areas of non-essential expenditure during 2008/2009. This contributed £1.673 million of savings.
- **Increase in Council Tax** – Council tax collection exceeded targeted figures by £0.579 million. This was due to growth in household numbers continuing to outstrip the national forecasts applied to the original budget.

## Annual Efficiency Statement

The Council's 2008/09 Annual Efficiency Statement was submitted to COSLA in August 2009. This statement showed total Council efficiency savings of £12.538 million in 2008/09 (split between recurring savings of £10.001 million and non-recurring savings of £2.537 million).

## The General Fund and Other Reserves

The General Fund surplus brought forward from 2007/2008 of £27.016 million was reduced by the net deficit for the year of £6.822 million. This has resulted in a surplus balance of £20.194 million being carried forward into 2009/10.

The overall balance of £20.194 million comprises a number of sources, including funds that are earmarked for specific purposes. In addition, when setting the budget for 2009/10, the Council agreed to use part of the balances to re-invest in services whilst complying with the Council's reserve strategy to maintain a contingency balance of £8.000 million. This position is summarised in the table below:

Reserve Fund	£m	£m
<b>Cumulative General Fund Surplus</b>		<b>20.194</b>
<b>Less : Earmarked Funds</b>		
International Youth Games	(0.976)	
Waste Management Fund	(2.351)	
Other Specific Carry Forward	<u>(0.480)</u>	<b>(3.807)</b>
<b>Reserves strategy balance</b>		<b>(8.000)</b>
<b>Balances used in 2009/10 budget</b>		<b><u>(4.714)</u></b>
<b>Available Resources</b>		<b><u>3.673</u></b>

In addition to the cumulative general fund balance of £20.194 million carried forward into 2009/10, the Council also holds funds in three other reserves:

Reserve Fund	£m	Purpose of Reserve / Fund
Repairs and Renewals Reserve	<b>2.884</b>	Resources available to meet repair and renewal of buildings and equipment.
Insurance Fund	<b>8.673</b>	Resources earmarked to meet outstanding claims.
Housing Revenue Account	<b>3.963</b>	Resources available to meet future running costs for council houses.

## Capital Expenditure 2008/09 – Composite Programme

In February 2008, the Council approved a revised composite capital expenditure budget for the year 2008/09 of £82.427 million. Subsequent additions, mainly as a result of additional government grants and external funding increased the programme to £110.912 million.

A mid-year review was carried out and identified slippage on capital expenditure of £34.536 million mainly relating to Schools and Centres 21 (£5.6 million) and to tender cost reviews for Ravenscraig Regional Sports Facility (£21.3 million) and Broadwood Stadium (£3.9 million).

In determining the need to borrow to finance capital expenditure, the capital programme had an in-built level of slippage of £7.8 million. The final composite capital programme spend for the year ended 31 March 2009 was £77.794 million.

As part of our Business Issues Report we commented on the level of capital programme slippage incurred during 2008/09 in the context of the Council's ambitious 2009/10 capital programme which exceeds £150 million. Management has committed to enhance the processes in place to control and monitor progress of capital spending, including profiling of committed and actual spending.

## Capital Expenditure 2008/09 – Housing Revenue Account

The Housing Revenue Account Capital Programme budget was £48.3 million which included £4.132 million slippage from the previous years. The final HRA capital programme outturn was £43.428 million as a result of £4.872 million worth of slippage relating primarily to rewiring, reroofing/render programmes.

## Capital Investment and Sources of Finance

Cumulative capital spends for the Council in 2008/09 was £121.222 million. This was funded by the following sources:

Source of Finance	General £m	HRA £m	Cumulative £m
Capital Receipts	1.811	11.633	13.444
Grants & Capital Contributions	27.339	-	27.339
Revenue Contributions	10.671	9.963	20.634
Government Supported Borrowing	15.753	-	15.753
Council Supported Borrowing	22.220	21.832	44.052
<b>Total</b>	<b>77.794</b>	<b>43.428</b>	<b>121.222</b>

This profile of funding is consistent with prior years. As part of our work in the Business Issues Report we highlighted that the Council's Capital Plan and Treasury Management Strategy forecast that Capital Receipts are likely to fall significantly over the short term.

## Trading Operations

Each trading operation has achieved its statutory performance target of achieving break even over a three year period. Performance is summarised in the table below:

Trading Operation	Turnover £000	Expenditure £000	2008/09 Surplus £000	3 Year Surplus £000
Building Cleaning	8,711	8,423	288	875
Catering	19,094	18,190	904	1,613
Grounds Maintenance	17,946	16,957	989	2,340
Cleansing	26,114	24,559	1,555	2,362
Sport & Leisure Management *	Nil	Nil	Nil	198
Transport	18,070	17,630	440	1,016
<b>Total Trading Operations</b>	<b>89,935</b>	<b>85,759</b>	<b>4,176</b>	<b>8,404</b>

\* Sport and Leisure Management trading operation was discontinued in 2006/07.

# 5. Financial Forecasts for 2009/10 and Beyond

## 2009/10 Projected Financial Position

The Council's budgeted financial position for 2009/10 (extracted from the report "Revenue Budget 2009/10" which was taken to the Council for approval in February 2009) is summarised below.

	£m
Approved Base Budget 2008/09 (Net Cost of Service)	751.178
Cost Pressures	34.539
Committed Service Growth	4.738
Transfer of Funding Sources	3.334
Services & People First Efficiency Savings	(10.034)
<b>Base Budget 2009/10</b>	<b><u>783.755</u></b>
Aggregate External Finance	659.599
Resources available to support a Council Tax freeze	3.672
Council Tax Income	<u>120.484</u>
<b>Total Income</b>	<b><u>783.755</u></b>

Budgeted expenditure of £783.755 million is based on the rollover of the 2008/09 base budget, amended to reflect financial cost pressures, committed service growth, transfers of funding sources (capital funded from current revenue) and efficiency savings.

Additional grant funding income of £3.672 million will be received during 2009/10 to reflect the fact that the Council has frozen Council Tax for 2009/10 at the 2008/09 rate.

## Cost Pressures

Significant cost pressures totalling £34.5 million (representing a 4.6% increase over the 2008/09 base budget) were identified by the Council in preparing its budget for 2009/10. These costs pressures include:

- Estimated pay awards of 2.5% and increases in employers' superannuation contributions;
- Additional costs as staff progress through enhanced grading points for 2009/10;
- Upward movements in the price of energy and tariff prices for 2009/10 through the national contract arrangements;
- Additional borrowing requirements resulting from the re-phasing of the capital programme will result in additional revenue expenditure in 2009/10.
- The slowdown within the housing sector has had an impact upon the level of income generation from Planning and Building Standards fees.

## Efficiency Savings 2009/10

As part of Audit Scotland's performance audit programme a national study on the delivery of efficiencies within the Scottish public sector was undertaken.

The fieldwork assessed the arrangements for monitoring and measuring efficiencies and how North Lanarkshire sought to ensure that reported savings are delivered without affecting service delivery.

We presented a report to the Audit and Governance Panel in August 2009 which included a number of areas where the Council was performing well:

- The Council has a good track record of generating efficiency savings and has incorporated efficiency as a key element of how it manages its business;
- Senior management are committed to the achievement of efficiencies;
- The Council is aware of the five key workstreams as identified by the Scottish Government and actively seeks efficiencies from each of them. Service and financial plans are prepared annually and provide detailed descriptions of all efficiency projects; and
- Responsibilities for delivering efficiencies are clearly identified with a clear process established for achieving gains within a prescribed timeframe. Efficiency savings monitoring reports are produced.

We did however identify two areas where the Council could improve:

- Greater consistency of evidence gathered against achievement of efficiency targets; and
- Monitoring the impacts of any efficiency savings on service delivery.

***The Council should progress its implementation of the actions agreed in our August 2009 Efficiency Toolkit Report.***

### ***Action 1***

## North Lanarkshire Council 2009/10 Efficiency Plan

A listing of the proposed efficiency savings for 2009/10, totalling £10.0 million (across all Services) was presented and approved by the Policy & Resources Committee in January 2009 and by the Council in February 2009. This includes both corporate and executive service savings.

## Financial Planning

The Council produced a Financial Plan for the period 2008/09 to 2010/11. The timeframe for this plan ties in with the Scottish Government's Spending Review period.

This plan aims to provide the Council with financial stability over the medium to longer-term by supporting the allocation of resources to Services that will enable them to deliver the Council's priorities. The plan details the background and context within which local authority financial planning currently operates and expands upon funding streams, expenditure projections, cost pressures, ring-fenced activities, efficiency savings, service growth, capital investment and longer term financial prospects.

A ten year financial model has also been developed by the Council to cover the years 2008/09 to 2017/18. While recognising that this process continues to be developed by the Council, we note that a similar process as was used for the three year plan was undertaken, focussing on three risk areas:

- Cost pressures;
- Future service commitments; and
- External income streams

The introduction of a longer-term financial plan should assist the Council in recognising and responding to longer-term patterns and trends.

## Managing in an Economic Downturn

The future economic outlook and likely government funding constraints will have a significant impact on the Council going forward. Although the extent of this impact is not yet defined, we anticipate a number of factors which will influence the future of local authorities, including:

Income Pressures	Cost Pressures
<ul style="list-style-type: none"> <li>• Reductions in grant income;</li> <li>• Freeze on council tax;</li> <li>• Reduced income from fees and charges;</li> <li>• Lower level of collection performance;</li> <li>• Loss of council tax revenue from unoccupied properties;</li> <li>• Reduced property sale revenue;</li> <li>• Write-offs of unrecoverable funds from failed institutions;</li> <li>• Loss of non domestic rates funding; and</li> <li>• The return of ring fencing.</li> </ul>	<ul style="list-style-type: none"> <li>• Change in personal circumstances (homeless / low income);</li> <li>• More benefit claimants;</li> <li>• Family distress;</li> <li>• Increased sickness absence;</li> <li>• Rent arrears;</li> <li>• Increasing utilities and fuel costs;</li> <li>• Charge avoidance;</li> <li>• Shift from private to public reliance;</li> <li>• Increased strain on Care Services;</li> <li>• Supplier failure;</li> <li>• Higher levels of fraud and theft;</li> <li>• Increase in anti social behaviour;</li> <li>• Lack of liquidity forcing the public sector to intervene.</li> </ul>

Demographics	Policy Decisions	Timing Issues
<ul style="list-style-type: none"> <li>• Exploding burden of care costs;</li> <li>• Personalisation creating entitlement visibility;</li> <li>• Costs of inbound migration;</li> <li>• Increase in sickness absence and dips in discretionary effort in staff in some cases;</li> <li>• Ageing, less mobile and less flexible workforce – pay grade inflation;</li> <li>• Increase in level of care case referrals.</li> </ul>	<ul style="list-style-type: none"> <li>• Settling invoices within 10 working days;</li> <li>• Lower passenger transport levy increases;</li> <li>• Impact of “green” legislation (eg Landfill tax);</li> <li>• Investment in localism;</li> <li>• Potential decreases in collaboration;</li> <li>• Local business subsidies (to secure survival)</li> <li>• Changes to National Insurance regime;</li> <li>• Unwillingness / inability to make people redundant – generous redundancy packages.</li> </ul>	<ul style="list-style-type: none"> <li>• Top up of final salary pensions;</li> <li>• Short term costs of investing in change;</li> <li>• Use of September inflation indices in the calculation of grants;</li> <li>• Legacy of under-investment in infrastructure;</li> <li>• Local and national election paralysis;</li> <li>• Equal pay claims (single status phases 1 and 2).</li> </ul>

***The Council should review and update its ten-year financial model to recognise trends and pressures that will influence its longer-term financial strategy. The financial plan should be used to ensure that the right strategic approach and service delivery models are in place to meet the scale of the challenge identified.***

**Action 2**

# 6. Governance and Performance

## Reports to Audit and Governance Panel

Our Internal Controls Report (presented to the Audit and Governance Panel in May 2009) and our Business Issues Report (presented to the Audit and Governance Panel in September 2009) provided commentary on the Council's Governance and Performance Management arrangements in respect of the risks faced by the Council

In addition, our Business Issues Report commented on the progress made by the Council in implementing the 12 actions for improvement it identified in its Improvement Agenda in response to the Audit of Best Value and Community Planning review reported to the Council in May 2008. ***The Council should to ensure that it progresses implementing the actions previously agreed with us in our September 2009 Business Issues Report.***

### Action 3

## Asset Management

As part of a previous audit review we highlighted a number of areas of good practice including the fact that the Council had established a detailed Asset Management Plan (AMP) which linked into Council priorities. In May 2009 the Accounts Commission issued their report, "Asset Management in Local Government", which highlighted a number of key recommendations for Councils. The key findings of the report together with a response from management to those recommendations will be presented to the Audit and Governance Panel on 28 October 2009

As part of the 2009/10 audit process we will review what action the Council has taken, if any, to address the recommendations raised in the Accounts Commissions report.

## Procurement

The Council has introduced the PECOS electronic ordering system across a number of services. However, this process was not supported by an up-to-date Procurement Strategy. The Council currently spends around £365 million per annum on the procurement of goods, services and works, with around £120 million per annum spent via electronic procurement.

The Policy & Resources (Finance & Customer Services) Sub Committee of 11 March 2009 approved a draft Procurement Strategy for 2009-13. An annual Procurement Action Plan was presented to the Policy and Resources (Finance and Customer Services) Sub Committee on 27 May 2009 when the final Procurement Strategy was approved.

## Information Governance

Over the last year the Council has received both External Audit and Internal Audit reports highlighting concerns over aspects of the Council's information governance processes, including the areas of disaster recovery and systems access.

The Council has reported that it has now put in place a range of activities to address the key challenges and risks in terms of ICT Disaster Recovery & Business Continuity Planning, ICT Security and Data Handling. We will follow up on this action as part of our 2009/10 audit.

## Workforce Planning

Following receipt of the Audit of Best Value and Community Planning Report from Audit Scotland, the Council has instigated a number of measures focused on the development and implementation of a workforce strategy.

A Workforce Planning and Development Working Group produced a Strategic Workforce Planning Overview in January 2009 which identified a six stage workforce planning process with a view to the implementation of an effective workforce strategy. The development of the workforce action plan is expected to be finalised by December 2009. The Council is also currently revising its current HR Strategy.

***The Council should ensure that its HR strategy reflects the actions identified in its proposed workforce action plan.***

**Action 4**

## Partnership Working

The Audit of Best Value and Community Planning Report highlighted that the Council should work to “develop the role and contribution made by Local Area Partnerships (LAPs) and community forums in Community Planning and improve community engagement by fully implementing the Community Engagement Strategy.”

A joint community planning event (‘Community Planning in North Lanarkshire’) took place on 16 January 2009 attended by 127 delegates from across the various community groups in North Lanarkshire.

The first draft of the North Lanarkshire Partnership Single Outcome Agreement (SOA) for 2009/10 was submitted for feedback to the Scottish Government on 27 February 2009. The feedback has been positive concerning the clear focus it provides in aligning local outcomes with the Government’s targets. The final Outcome Agreement was approved at the Policy and Resources Committee on 9 June 2009.

The LAPs have recently developed Neighbourhood Improvement Plans, which are designed to reflect the Community Plan and the Single Outcome Agreement commitments at a local level. These plans extend to March 2011, to ensure that they integrate with Single Outcome Agreement timescales.

## Sustainability

The Council presently undertakes a number of development activities in relation to sustainability. These are carried out across a range of Council services, often with other aims but incorporating goals in relation to sustainable development.

The Council has produced a draft Sustainable Development Delivery Framework which outlines plans to rationalise such activities, to avoid duplication and to better co-ordinate the various sustainable development activities through an Environment Working Group and Sustainable Development Steering Group.

The Council is also currently developing its Carbon Management Plan, in conjunction with the Carbon Trust, which aspires to achieve a planned reduction in CO2 emissions of 25% by 2014. As your external auditor we are currently working with the Council to assess the reliability of the information being used for carbon reporting. We will report our findings in this area as part of the 2009/10 audit.

## Arms Length Organisations

The Audit of Best Value and Community Planning highlighted that tenants had expressed dissatisfaction with the quality of service in routine repairs delivered by Maintenance and Property Care Limited (MPC Ltd). MPC Ltd is one of the external organisations which the Council uses for housing maintenance. This coincided with a decline in performance identified by Housing and Social Work Services.

Since the decline was identified, revised monitoring arrangements have been put in place and working group was formed involving senior housing staff and senior management from MPC Ltd.



This level of focus has ensured that there has been significant progress in reducing the delays in housing repairs. At 29 June 2009 there remained 211 outstanding housing repairs against a target of 250. This compares favourably to the position of 2,187, eighteen months previously.

## Performance Management / Single Outcome Agreement

As has been previously discussed, the final North Lanarkshire Single Outcome Agreement was approved at the Policy and Resources Committee on 9 June 2009.

The Council measures approximately 800 indicators on a regular basis, and it was decided that investment in a performance management system would provide senior officers and Members with a greater level of comfort over the performance of the Council against these indicators, as well as identifying a number of potential efficiencies.

A new system, known as PerformNL was implemented at the beginning of 2009/10 across all front-line Council Services. As the system evolves, it is intended that the Council's partners will be able to access information and that real-time reporting will be available. The introduction of PerformNL should improve the ability of the Council to report promptly and effectively, both internally and externally.

## Statutory Performance Indicators

The Local Government Act 1992 places a duty on Councils to ensure they have in place adequate arrangements for collecting, recording and publishing performance information as required to comply with the Direction. The Accounts Commission published "The Publication of Information (Standards of Performance) Direction 2007 ("the 2007 Direction") in November 2008, to apply to the financial year 2008/09.

It is the responsibility of the Council to ensure that, as far as practicable, the information which it publishes is complete and accurate. There are 57 performance indicators (PI's) in total, all of which have to be graded as either 'A', 'X', or 'FTR' as follows:

- A:** The data appears to be reliable in material aspects.
- 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 'Failure to Report'

We consider whether the Council has made such arrangements for collecting, recording and publishing performance data as required to ensure that, as far as is practicable, everything published is accurate and complete". We do not report on the accuracy of the data reported.

We are grateful to Internal Audit for their valuable assistance in completing the audit of the arrangements for reporting the Council's performance indicators.

All Performance indicators reviewed by us were graded 'A'; "the data appears to be reliable in material aspects", with the exception of the following indicators:

## HS 2 – Housing Quality

The Housing Quality indicator has been graded "X" as the Council does not have adequate systems in place or reliable data to report Housing Quality performance as at 31 March 2009 (for 2008/09). The performance reported by the Council this year reflects a 2007/08 assessment of housing quality, performed by an independent surveyor, on an 8.7% sample of council house dwellings. In addition, The Council has not retained the evidence to support this independent assessment.

## HS 7 – Homelessness

The Council has failed to make a return for Part B of the Homelessness indicator “the proportion of those provided with permanent accommodation in council stock who maintained their tenancy for at least 12 months”. The introduction of the Common House Register in addition to other system upgrades made to the Council’s Housing Services Management System has resulted in the Service being unable to accurately measure and report this indicator. As the Homelessness indicator will be retained within the 25 SPI indicators in the new SPI direction it is important that the Council put in place arrangements that will accurately measure and report this indicator going forward.

***The Council should ensure that it takes all necessary steps to ensure that the Housing Quality and Homelessness indicators for 2009/10 can be accurately measured and reported.***

### ***Action 5***

## Additional Matters

During the year we were asked to perform two additional pieces of investigative work following complaints made to Audit Scotland. The complaints made to Audit Scotland concerned:

- (i) The Council’s arrangements for providing grant funding to credit unions in North Lanarkshire; and
- (ii) North Lanarkshire Councils funding of the Viewpark Sports and Fitness Club.

We reported the results of our work to Audit Scotland. Although we identified a number of areas for improvement, the nature of our findings were such that no further work was required by Audit Scotland.

We are also aware of the ongoing developments in relation to a potential property transaction for land at East Waterhead Farm, Cumbernauld involving the Council and Multi-Link Leisure Developments Limited. We anticipate that we will review this potential transaction in more detail during our 2009/10 audit following the Council’s decision to appeal the Court ruling which found in favour of Multi-Link Leisure Development Limited.

# 7. Systems of Internal Control

## Statement on the System of Internal Financial Control

The Code of Audit Practice requires us to review and report on the Statement of Governance and Internal Control given under the relevant code before its publication.

The Council's Statement of Accounts includes a Statement on the System of Internal Financial Control. The Council has however opted not to include the full governance statement which is an optional fuller statement within the SORP.

Our review of this statement concluded that it is in compliance with the Statement of Recommended Practice (SORP) and that it is not misleading or inconsistent with other information we are aware of from our normal audit procedures.

## Systems of Internal Control

The results of our work on systems of internal control were communicated to the Audit and Governance Panel in our Internal Controls Report on 20 May 2009.

The report contained 11 recommendations to improve controls, two of which was graded as high risk:

- A lack of independent review of payroll exception reports; and
- Inadequate arrangements for the completion and retention of all Criminal Conviction Declarations made by new staff employed by the Council.

The Council has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the agreed action plan during our 2009/10 audit. ***The Council should ensure implementation of the actions previously agreed in our May 2009 Internal Controls Report.***

### Action 6

## Follow up of previous year recommendations

We followed up the Council's progress in implementing our external audit recommendations made during 2007/08 (contained within our Follow Up Report, Interim Management Letter and Annual Report to Members.)

Our findings were reported to the Audit and Governance Panel on 20 May 2009

Of the 46 agreed recommendations from the previous year progress was as follows:

Status	Total
Fully implemented	23
Action in progress	16
Little action to date	3
No longer applicable	4
<b>Total</b>	<b>46</b>

Of the nineteen recommendations still requiring further work, three had an original risk rating of “High”.

- The need for periodic User Access Reviews of the Housing Services Management System (HSMS);
- Completion of a Disaster Recovery Policy;
- The continued monitoring and reporting of the Council’s Best Value Improvement Agenda.

***The Council should ensure the implementation of the outstanding actions previously agreed in our Follow Up Report.***

***Action 7***

### Internal audit

As recommended by the International Standard on Auditing (ISA) 610, “The Auditor’s Consideration of the Internal Audit Function”, we consulted Internal Audit during our interim audit visit to discuss their programme of work for the current financial year, to establish progress against the internal audit plan and to review a summary of their completed reports to determine the main issues being reported.

We also placed reliance on specific reviews undertaken by Internal Audit where relevant to our audit work, in particular in the following areas:

- Payroll - Starters and Leavers;
- Creditors – PECOS;
- Housing Rents;
- Regularity – Travel and Subsistence; and
- Statutory Performance Indicators.

### Fraud and Corruption

We have reviewed certain of the Council’s overall arrangements for the prevention and detection of fraud and corruption, through discussion of key risk areas with senior management as well as reviewing certain associated controls and selected documentation. This was reported in our Internal Controls Report and no matters require to be reported within the Final Report.

### National Fraud Initiative

The National Fraud Initiative (NFI) is an exercise whereby data is taken from Councils and other public bodies, and cross matched to identify the potential for fraud. Councils are then informed of the resulting indicative matches, which are then investigated by management. The 2008/09 exercise is similar to the one undertaken in 2006/07 covering for example matches in benefits, payroll and creditors.

Internal Audit submitted a NFI Progress Report to 31 July 2009 to the Audit and Governance Panel at its meeting in August 2009.

The reported savings arising from NFI for the period to 31 July 2009 are detailed in the table below:

Benefit Fraud Investigations	£
Overpayments (Fraud, LA Error, Claimant Error)	122,196
Weekly reduction in benefits	893
Value of overpayments where recovery is in process	116,465

We understand that management will periodically report future progress on NFI to the Audit and Governance Panel

# Appendix A – Action Plan

Ref	Recommendation	Management Response
1	The Council should progress its implementation of the actions previously agreed in our August 2009 Efficiency Toolkit Report.	<p><b>Management Response:</b> Agreed. Progress reports will be submitted to the Audit and Governance Panel to enable them to monitor management’s implementation of agreed actions</p> <p><b>Responsible Officer:</b> Various as per Efficiency Toolkit report action plan</p> <p><b>Due Date:</b> Various as per Efficiency Toolkit report action plan</p>
2	The Council should review and update its ten-year financial model to recognise trends and pressures that will influence its longer-term financial strategy. The financial plan should be used to ensure that the right strategic approach and service delivery models are in place to meet the scale of the challenge identified.	<p><b>Management Response:</b> Agreed. The framework will continue to be updated to reflect changes in the economic environment and potential changes in the level of government grant support.</p> <p><b>Responsible Officer:</b> Head of Financial Services</p> <p><b>Due Date:</b> December 2009</p>
3	The Council should ensure that it progresses implementing the actions previously agreed with us in our September 2009 Business Issues Report.	<p><b>Management Response:</b> Agreed. Progress reports will be submitted to the Audit and Governance Panel to enable them to monitor management’s implementation of agreed actions</p> <p><b>Responsible Officer:</b> Various as per Business Issues Report action plan</p> <p><b>Due Date:</b> Various as per Business Issues Report action plan</p>

Ref	Recommendation	Management Response
4	The Council should ensure that its HR strategy reflects the actions identified in its proposed workforce action plan.	<p><b>Management Response:</b> Agreed. The Council will ensure that the HR strategy and the Council's Workforce Planning and Development Plans are compatible.</p> <p><b>Responsible Officer:</b> Executive Director of Corporate Services and Executive Director of Environmental Services</p> <p><b>Due Date:</b> March 2010</p>
5	The Council should ensure that it takes all necessary steps to ensure that the Housing Quality and Homelessness indicators for 2009/10 can be accurately measured and reported.	<p><b>Management Response:</b> Housing Services will liaise closely with the Chief Executive's Office and Internal Audit to ensure that all required SPIs for 2009/10 can be accurately measured and reported.</p> <p><b>Responsible Officer:</b> Head of Housing Services</p> <p><b>Due Date:</b> Immediate</p>
6	The Council should ensure implementation of the actions previously agreed in our May 2009 Internal Controls Report.	<p><b>Management Response:</b> Agreed. Progress reports will be submitted to the Audit and Governance Panel to enable them to monitor management's implementation of agreed actions</p> <p><b>Responsible Officer:</b> Various as per Internal Controls Report action plan</p> <p><b>Due Date:</b> Various as per Internal Controls Report action plan</p>

Ref	Recommendation	Management Response
7	The Council should ensure implementation of the outstanding actions previously agreed in our May 2009 Follow Up Report.	<p><b>Management Response:</b> Agreed. Progress reports will be submitted to the Audit and Governance Panel to enable them to monitor management's implementation of agreed actions.</p> <p><b>Responsible Officer:</b> Various as per 2009 Follow-Up Report action plan.</p> <p><b>Due Date:</b> Various as per 2009 Follow-Up Report action plan.</p>

# Appendix B - Communications to Management

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 Audit and Governance Panel with responsibility discharged through the regular meetings of the Audit and Governance Panel during the year. Summarised below are the requirements set out within ISS 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Appointment Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to 7 January 2009 Audit and Governance Panel and confirmed no member of audit team has any direct interest, financial or otherwise, in North Lanarkshire Council.
Audit Approach and Scope	Audit Planning document (reported to Audit and Governance Panel 7 January 2009).
Accounting Policies/Practices with a Material Effect on the Financial Statements	Annual Report to Members and the Controller of Audit.
Potential Effects of Material Risks and Exposures	Audit Planning document (7 January 2009).
Audit Adjustments	Section 3 of our Annual Report to Council Members and the Controller of Audit.



Communication Required under ISA 260	Reference/Comment
Material Uncertainties relating to Going Concern	None identified.
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor's Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management 23 September 2009.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Internal Controls Report (20 May 2009), our Business Issues Report (23 September 2009) and Section 7 of our Annual Report to Council Members and the Controller of Audit.
Fraud	Discussed and considered fraud arrangements with the Chair of the Audit and Governance Panel (7 January 2009) and Management and throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit and Governance Panel on 7 January 2009.
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 23 September 2009
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

## Formal Reporting to Management during 2008/09

During the year we have presented a number of formal reports to Management and the Audit and Governance Panel and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing
Audit Plan	January 2009
Detailed Timetable for 2008/09 Financial Audit	February 2009
Follow Up Report	May 2009
Internal Controls Report	May 2009
Efficiency Toolkit Report	August 2009
Business Issues Report (Including Best Value Follow Up)	September 2009
Audit Opinion	September 2009
Annual Report to Council Members and the Controller of Audit	October 2008

In addition, we also reported on the following:

- Grant Funding Arrangements for Credit Unions (January 2009)
- Grant Funding of Viewpark Sport and Fitness Club (January 2009)
- The Non Domestic Rates Grant Claim (February 2009);
- The Education Maintenance Allowance Grant (July 2009);
- The Safety Camera Partnership Grant Claim (July 2009)
- The Councils Statutory Performance Indicators (August 2009);
- The Criminal Justice Grant Claim (September 2009); and
- The Housing Benefit Subsidy Grant Claim (Expected November 2009);

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

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), North Lanarkshire is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. North Lanarkshire agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, North Lanarkshire discloses any of 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.

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. This report is protected under the copyright laws of the United Kingdom and other countries. Any other use or disclosure in whole or in part of this information without the express written permission of PricewaterhouseCoopers LLP is prohibited.