Public Sector Assurance

22 October 2010

North Lanarkshire Council
Annual Report to Council Members and the Controller of Audit
Year ended 31 March 2010

PRICEWATERHOUSECOOPERS

Contents

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.

This Annual Report to Members, together with our reports to the Audit and Governance Panel throughout the year, discharges the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance",

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.

North Lanarkshire Council
Annual Report to Council Members and the Controller of Audit
Year ended 31 March 2010

Members' Overall Commentary

Members' Overall Commentary

Introduction

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2009/10 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

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 Audit Scotland Code of Audit Practice ("the Code"), revised and published in March 2007.

We have a dual reporting responsibility for the audit: to the Council Members and to the Controller of Audit.

Managing in Uncertain Times – Section 1

The Chancellor's Comprehensive Spending review announcement on 20 October 2010 indicated that there will be a reduction in block grant to Scotland of £3 billion in real terms over the next few years, equating to a 7% reduction in revenue spend and 38% reduction in capital spend.

Although some local authorities will be more vulnerable than others, all Councils, including North Lanarkshire, will be impacted. Regardless of the perceived strength or weakness of an authority's financial position, difficult decisions are going to have to be made. We recommend looking at six key areas that our experience in other sectors has shown may be relevant to addressing the challenges ahead:

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

We suspect that much of the relatively easier savings decisions will already have been taken and in many cases these will already be on the road to being realised. Therefore, the ability of the Council to respond to a prolonged wave of revenue reduction arising from the re-assessment of public spending levels and priorities is likely to be particularly difficult. Forecasts for the next four years should therefore include "downside" scenarios and a range of savings and redesign options determined from a priority based budgeting approach.

Clearly, any failure to act fully and promptly in respect of the financial challenge agenda could have significant negative implications on a Council, such as its continued ability to deliver on its key service priorities. This area of risk will represent the greatest area of challenge for the Council and other Councils over the next few years.

In response, the Council, as part of its longer term financial planning processes, identified a funding gap of approximately £60 million for the period 2011 to 2014. In order to address this funding gap the Council developed an outline plan in January 2010 for its Service and People First Transformation Programme that looked to achieve a budget reduction over the three year period of £70 million.

However, the June 2010 Emergency Budget and the Comprehensive Spending Review announcement in October 2010 set out the new UK Government's plans for fiscal recovery which is both faster and deeper than the process previously envisaged. As a result, the original saving requirement of £60 million contained within the Council's Financial Plan has already been updated to reflect the Government's revised fiscal consolidation plans resulting in a revised savings requirement of £80 million for the three year period 2011 to 2014. These revised assumptions presume that local government is not disadvantaged through a protection of areas such as health.

In September 2010 the Chief Executive presented to the Policy and Resources Committee a draft package of savings options totalling £72 million which have been prepared to address the currently identified budget requirements for the period 2011/12, 2012/13 and 2013/14, to enable public consultation and early decision-making on future savings. This aims to deliver a savings package of at least £55 million for 2011/12 and 2012/13 and provide a baseline to inform future decision-making for 2013/14.

Financial Statement and Audit Opinions – Section 2

The financial statements of the Council for the year ended 31 March 2010 have been prepared to comply with accounting requirements contained in the 2009 SORP (Statement of Recommended Practice on Local Authority Accounting).

Our audit opinion for the year ended 31 March 2010, which is in the format prescribed by Audit Scotland, is unqualified.

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a high standard. Overall, an efficient audit process was achieved through an effective working relationship with Council staff.

During the course of the audit, discussions were held with management over the accounting treatment and/or presentation of a number of matters which were all satisfactorily resolved. The most significant of these related to:

- equal pay and single status claims;
- PFI / PPP arrangements; and
- accounting assumptions in relation to the pension liability.

Performance – Section 3

In 2009/10, North Lanarkshire Council spent £1.1 billion on the provision of public services. The Council's net operating expenditure in 2009/10 was £771.5 million. This was met by Central Government funding and local taxation of £739.5 million, resulting in a deficit of £32.0 million. Following adjustments required by normal accounting practices, the General Fund deficit for the year was £1.451 million. This net deficit for the year of £1.451 million is a favourable outturn against the budgeted deficit of £4.714 million.

The Council's reserve strategy for 2009/10 was to maintain a reserve balance of £8 million. The net deficit for the year of £1.451 million has been deducted from the surplus of £20.194 million brought forward from 2008/09. This has resulted in a General Fund balance of £18.743 million being carried forward into 2010/11, represented by a contingency balance of £7.349 million and the carry forward of £11.394 million of committed resources into 2010/11.

The most material estimate included in the accounts is for pension liabilities in respect of employees who are members of the Council's pension schemes. The net pension liability at 31 March 2010 is £422.4 million. In 2007/08 the Council reported a small surplus on the pension scheme of £3.6 million. Since then the assets have increased in value by £80.4 million (8.5%) but in the same period, pension scheme liabilities have increased by £506.4 million (54%). This deterioration in the net position is primarily as a result of the global economic downturn and mortality rates. The Council is not required to recover this deficit immediately, but it is an important factor in the consideration of the level of future pension contributions, particularly in light of the future reductions in public sector funding.

Each of the Council's five trading operations (Building Cleaning, Catering, Grounds Maintenance, Waste Management, and Fleet Operations) has achieved its statutory performance target of achieving break even over a three year period.

The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and deliver value for money and efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual Procurement Capability Assessment (PCA) to assess procurement performance in all public sector bodies. Results are summarised as non-conformance (0-24%), conformance (25-49%), improved performance (50-74%) and superior performance (75-100%).

All councils have been assessed by Scotland Excel and were collectively scored as non-conformant (Average Council Score of 22.6%). This means that councils, collectively, are not achieving best value across their procurement activities.

North Lanarkshire Council scored 32% overall which takes it into the conformance band. In relative terms the council is working above the average for local government, but there still remains room for improvement.

Governance and Control – Section 4

The Council's political and management arrangements remain largely unchanged since the 2008 Audit of Best Value and Community Planning. However, the Council has moved from an eight weekly cycle to four committee cycles per year to accommodate meetings of the new Local Review Body and special meetings required by statutory changes. The Council is supported by the Policy and Resources Committee (including its three sub committees), six Service Committees, six Local Area Partnerships, Audit and Governance Panel and a Scrutiny Panel.

We have reviewed the Council's overall governance arrangements, including a review of the key Committee structures and composition, internal audit and risk management. Appropriate arrangements and reporting were found to be in place.

We have also considered other aspects of the internal control environment, including partnership working and community engagement. Appropriate arrangements and reporting were also noted.

The results of our work on systems of internal control were communicated to the Audit and Governance Panel in our Interim Management Letter (April 2010) on 12 May 2010. The report contained 22 recommendations to improve controls, one of which was graded as higher risk concerning the need for the Council to re-assess its budget forecasts and identify with greater certainty the level of central government support it is likely to receive in the future. The Council has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

We have followed up the Council's progress in implementing audit recommendations made by us in the prior year. Our Follow Up of Prior Year Recommendations (April 2010) was considered at the Audit and Governance Panel meeting on 12 May 2010. Of the 51 agreed recommendations made in the previous reports, there are no outstanding actions with a high priority risk rating.

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
22 October 2010

North Lanarkshire Council
Annual Report to Council Members and the Controller of Audit
Year ended 31 March 2010

Detailed Findings

1. Managing in a Period of Financial Uncertainty

1.01 The UK economy went into recession in mid-2008 for the first time since 1991. By summer 2009, UK economic output had fallen for five consecutive quarters. Significant financial pressures remain and the future economic position is uncertain and difficult to predict.

1.02 In response to the recession the UK Government almost doubled its level of borrowing to £175 billion in 2009/10 to allow it to increase public spending to support the economy. This level of borrowing means that the UK Government will need to pay higher debt interest payments, which in turn reduces the amount left for spending on the public sector. The recent UK General Election has resulted in a change of Government and this has led to a change in the plans for repaying the national debt with the new coalition government planning to halve the debt by 2013/14. In order to achieve this ambitious target, significant reductions in public sector spending will be required. A recent paper by the Scottish Government's Chief Economist predicted that public sector spending in Scotland may fall in real terms by 3% every year to 2014/15 and will take a total of 12 to 15 years to get back to 2009/10 levels.

1.03 Further details of this challenge became clearer after the 22 June 2010 UK emergency budget and Comprehensive Spending Review announcement by the Chancellor on 20 October 2010. This most recent announcement indicated that there will be a reduction in block grant to Scotland of £3 billion in real terms over the next four years, equating to a 7% reduction in revenue spend and 38% reduction in capital spend.

1.04 It is clear that due to their relatively heavy dependence on the public sector for employment, Scotland, Northern Ireland, Wales and the North East of England are likely to suffer the most, increasing the potential for a greater impact on Scottish Local Authorities.

1.05 Scottish Government funding from the UK Government will fall from £28.2 billion in 2010/11 to £27.3 billion in 2011/12, £27.6 billion in 2012/13, £27.5 billion in 2013/14 and £27.7 billion in 2014/15.

1.06 The impact on Scotland's public bodies will be felt throughout, but particularly in 2011/12 due to the Scottish Government delaying 2010/11 savings actions until 2011/12 (effectively having to action savings for 2010/11 and 2011/12 in 2011/12). Local Government may also be faced with identifying additional savings should the Scottish Government continue to "protect" spending levels in the Health Sector.

1.07 The precise impact on the Council will become clearer during November/December 2010 following the Scottish Government's November announcement of its budget for 2011/12.

1.08 Taken together, these factors will have serious consequences for the Scottish budget. As a result of the developing financial position, Audit Scotland and the Scottish Government have previously issued a number of reports on the matter. Key reporting themes from four of these reports are highlighted below.

Audit Scotland - Scotland's Public Finances: Preparing for the Future

1.09 In November 2009, Audit Scotland published its report: 'Scotland's Public Finances: Preparing for the Future'. This report highlighted the fact that the Scottish Government budget is likely to have peaked in 2009/10 for the foreseeable future. This means that individual public bodies will have smaller budgets in future years. It highlighted that in addition, other public sector income is likely to be less than previously forecast. The report concluded that we are at a historical breakpoint in public finances.

Audit Scotland - Improving Public Sector Efficiencies

1.10 Following on from the Scotland's Public Finances report, Audit Scotland published a further report in February 2010: 'Improving public sector efficiency'. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in a 2006 Audit Scotland report about the previous efficiency programme.

1.11 The report noted that Scottish public bodies had reported more efficiency savings than the Government's two per cent target. However, there were serious financial challenges ahead – the biggest since devolution – and making required savings simply through efficiency will become increasingly difficult.

1.12 The report recommends that to deal with reduced future funding, public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and to improving collaboration and joint working.

Audit Scotland – Annual Overview of Local Government in Scotland 2009

1.13 This report details a broad ranging insight into issues affecting all aspects of Local Government. Whilst predominantly focused on how effectively local authorities managed their resources in 2008/09, issues such as: increased difficulty in collecting cash due from council tax and business rates, increases in employer's pension contributions and the social care implications of an aging population, are all discussed against the backdrop of the 'significant pressures facing public finances'.

Independent Budget Review

1.14 The Independent Budget Review was commissioned by John Swinney, Cabinet Secretary for Finance and Sustainable Growth, as part of the Scottish Budget process for 2010/11. The review was undertaken by a panel of three, under the Chairmanship of Crawford Beveridge, with the intention of 'informing public and Parliamentary debate' ahead of the Comprehensive UK Spending Review.

1.15 The review contextualises the extent and length of future funding challenges, noting that figures from the Scottish Government show that it may be as many as 15 years before budgets return, in real terms, to 2009/10 levels. This is echoed by the sentiment that while the review's remit covered the period from 2011/12 to 2014/15, it is noted that challenges will persist well beyond that timeframe and, therefore, a more strategic longer-term perspective needs to be developed.

1.16 How the funding deficit will be addressed is also discussed, with the review noting that contributions from efficiency savings alone will not be sufficient and that radical redesign in the way that services are provided to the public will need to be seriously considered. Service redesigns and organisational restructuring will undoubtedly lead to a reduction in public sector headcount.

Our Perspective on North Lanarkshire Council

1.17 North Lanarkshire Council is already considering how best to respond to the existing drive for efficiencies. We suspect that much of the relatively easier savings decisions will already have been taken and in many cases these will already be on the road to being realised. Therefore, the ability of the Council to respond to a prolonged wave of revenue reduction arising from the re-assessment of public spending levels and priorities is likely to be particularly difficult. Forecasts for the next four years should therefore include “downside” scenarios and a range of savings and redesign options determined from a priority based budgeting approach.

1.18 Although some local authorities will be more vulnerable than others, all Councils, including North Lanarkshire, will be impacted. Regardless of the perceived strength or weakness of an authority’s financial position, difficult decisions are going to have to be made. We recommend looking at six key areas that our experience in other sectors has shown may be relevant to addressing the challenges ahead:

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

1.19 Clearly, any failure to act fully and promptly in respect of the financial challenge agenda could have significant negative implications for a Council, such as its continued ability to deliver on its key service priorities. This area of risk will represent the greatest area of challenge for the Council and other Councils over the next few years. **See Action 1.**

Council’s 2010/11 Budget

1.20 The Council has approved its budget for the period 2010/11, which provides for a break-even position, with expenditure projected at £789.240 million. Budgeted expenditure of £789.240 million is based on the rollover of the 2009/10 base budget, amended to reflect Scottish Government funding transfers, financial cost pressures, recognised service priorities, discretionary fee & charge increases and an efficiency savings target of £15 million.

1.21 Significant cost pressures totalling £19.829 million (representing a 2.5% increase over the 2009/10 base budget) were identified by the Council in preparing its budget for 2010/11 which includes allowances for:

- Annual pay award;
- Staff increments;
- Additional employers' superannuation contributions;
- Additional Joint Board payments;
- Increase in contractual commitments; and
- Review of non-domestic rates valuations.

1.22 In light of the challenging financial climate and the demographic pressures facing the Council additional cost pressures of £4.947 million have also been incorporated into the 2010/11 budget to allow for essential areas of service prioritisation. This includes:

- £2 million to support the elderly in areas such as dementia, mobility and personal care.
- £2.947 million has also been identified to support children and families including £1.608 million to provide essential services for young people with complex needs leaving school; £0.45 million to support the vocational education programme; £0.5 million to enhance fostering and kinship care initiatives; £0.254 million to support footwear & clothing grants; and £0.135 million to support children with autism.

1.23 The anticipated number of Band D equivalent households continues to show the upward trend experienced in previous years. The forecast represents an increase of 1,164 Band D households within the North Lanarkshire area which at the Band D council tax level of £1,098 will result in additional council tax income for 2010/11 of £1.278 million. The Council has accessed resources of £3.672 million in 2010/11 to continue the support by Government of a council tax freeze.

Medium Term Financial Planning – The Transformation Programme

1.24 As reported in previous years, the Council's strategic direction remains firmly set within the context of its Corporate and Community Plans which cover the period 2008 to 2012. More recently however, in response to the challenging economic environment, the Council has developed an outline plan for its Service and People First Transformation Programme which will provide the future operating framework for the Council.

1.25 In our Interim Management Letter, reported to the Audit and Governance Panel in May 2010, we highlighted that the Council, as part of its longer term financial planning processes, identified a funding gap of approximately £60 million for the period 2011 to 2014. This funding gap included the assumption that the Council would receive no uplift in central government support rather than the possibility of a reduction in central government support and pre-dated any formal announcements by the chancellor.

1.26 In order to address this funding gap the Council developed an outline plan for its Service and People First Transformation Programme that looked to achieve a budget reduction target over the three year period of £70 million. We commend the initiative to identify budget savings in excess of the Council's funding gap.

1.27 However, the June 2010 Emergency Budget set out the new UK Government's plans for fiscal consolidation which are both faster and deeper than the process previously set out in the March 2010 Budget which had informed the previous financial assessment reported to the Council.

1.28 As a result, the original saving requirement of £60 million contained within the Council's Financial Plan was updated to a revised savings requirement of £80 million for the three year period 2011 to 2014. This was allocated £25 million for 2011/12, £30 million for 2012/13 and £25 million for 2013/14. It should be noted however that the revised assumptions presume that local government is not disadvantaged through a protection of areas such as health. Protection of health, or any other areas of public expenditure budget, could impact upon the Council's financial position, meaning that the "financial gap" is significantly higher. Any potential one-off costs arising from future equal pay liabilities would require the development of separate plans and actions to fund these costs.

1.29 The precise impact of the Scottish Government settlement, announced by the chancellor on 20 October 2010, will not be known until later in the year when the Scottish Government set its budget for 2011/12.

The Council's Transformation Programme

1.30 The Council's Transformation Programme is managed by a Transformation Board comprising members of the Corporate Management Team. The Board meets every six weeks and receives regular reports describing progress and seeking decisions on key issues. Programme support is provided by a Programme Director and Project Office comprising staff resources seconded from Services within the Council.

1.31 In September 2010, the Chief Executive presented to the Policy and Resources Committee a draft package of savings options totalling £72 million which had been prepared to address the currently identified budget requirements for the period 2011/12, 2012/13 and 2013/14, to enable the Committee to make a series of early decisions, actions and communication of the savings options.

Key Workstream	2011 to 2014 Budget Reduction Target £'000	Total Options Identified £'000
Workforce deployment	23,000	24,470
Service re-prioritisation and re-provisioning	16,000	17,125
Procurement	5,000	4,910
Asset management	5,000	5,000
Income generation / debt management	5,000	5,000
Shared Services / Diagnostic Reviews / Clyde Valley Review	16,000	16,000
Total	**70,000**	**72,505**

1.32 Brief descriptions for the workstreams are as follows:

- Workforce Deployment - a targeted reduction of 5% in employee costs through reviews of current structures and efficiency measures including absence management and overtime.
- Service Prioritisation - a review of all services to establish priorities and options where delivery choices are available to provide opportunities for savings.
- Asset Management - a targeted reduction of 5% in property and maintenance costs and opportunities for property rationalisation.
- Procurement - a continuation of the programme ongoing over the last three years to generate procurement efficiencies through review of contracts and commodities.
- Income Generation - the identification of opportunities to generate increased income through the introduction of charges and reviewing the levels of charge for services where the Council charge is currently below average levels.
- Shared Services - the review and development of the diagnostic opportunities for the redesign of processes to enable further cost reductions and efficiencies, incorporating the recommendations from the Clyde Valley Review and the Council's continuous improvement review programme.

1.33 The Council has established a work programme and timetable which includes a summary of reports that will be communicated to members as part of the process to finalise the savings plan at the special Policy and Resources Committee on 25 November 2010. This is summarised in the table below:

	Title	Target Timescale for Completion
1	Consultation Feedback/Analysis	29 October 2010
2	Equality Impact Assessment	20 October 2010
3	Risk Assessment and Single Outcome Agreement Assessment of savings options	20 October 2010
4	Financial Outlook and Update	Reported after any key announcement
5	Workforce Deployment Savings - Summary of one-off costs and other implications arising from the savings options	27 October 2010
6	Final Package of Savings Options	8 November 2010

1.34 Management has demonstrated a good awareness of the potential risks posed by the economic environment and has identified actions to reduce the risk to the Council and its council tax payers. Although timely action has been taken to identify the extent of the future funding challenges, management is now focussed on ensuring that this results in tangible savings and change initiatives for 2011/12 (and beyond). Management need to work quickly to ensure that tangible savings and change initiatives are in place for 2011/12 (and beyond). These plans should be flexible and be refreshed regularly in order to address the ever-changing environment and requirements of the forthcoming Scottish Budget announcement.

Action 1

2. Financial Statements and Audit Opinion

Audit Opinion

2.01 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 2009 SORP (Statement of Recommended Practice on Local Authority Accounting), of the financial position of North Lanarkshire Council and its group as at 31 March 2010 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

2.02 We have given an unqualified opinion that the financial statements of the Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Audit Process

2.03 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a high standard. Overall an efficient audit process was achieved through an effective working relationship with Council staff.

Basis of Preparation

2.04 The draft financial statements were signed by the Executive Director of Finance and Customer Services on 24 June 2010 and submitted to the Controller of Audit by the deadline of 30 June 2010. Co-operation between management and ourselves has ensured the timely completion of audited financial statements by 30 September 2010.

Unadjusted Misstatements

2.05 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 which we deem to be of a trivial nature. As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2009/10 financial statements. We, therefore, have no unadjusted 2009/10 misstatements to report.

Group Balances and Going Concern

2.06 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:

- 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

2.07 The accounts of all group bodies have been prepared on a going concern basis.

Accounting Issues

Equal Pay - Provision

2.08 Equal pay claims have received significant media attention recently following the Court ruling that Birmingham City Council will have to pay out up to £200 million having failed to defend a significant volume of claims. Legal firms representing the successful Birmingham claimants are turning their attention to Scottish local authorities in the hope of achieving similar tribunal outcomes. North Lanarkshire Council is not immune to this attention and currently has disclosed a provision and a further contingent liability in relation to equal pay claims.

2.09 The Council in closing its accounts for the 2005/06 financial year recognised the need to provide £23.552 million to fund the ongoing commitments arising from the agreed equal pay compensation framework. As at 31 March 2010, £13.217 million of this provision had been utilised. During 2009/10 this provision was increased by £9.232 million to reflect the Council's agreement to settle further claims leaving an equal pay provision at 31 March 2010 of £19.567 million in relation to additional green book claims including cleaning, catering and home support workers.

2.10 We have considered the equal pay provision against the criteria set out in FRS 12 – Provisions, Contingent Liabilities and Contingent Assets and the LA SORP and we are satisfied with the Council's accounting treatment for these equal pay claims.

Equal Pay – Contingent Liability

2.11 The Council has identified contingent liabilities in relation to equal pay grievances and the potential risk of new equal pay claims that may be pursued as a result of the implementation of the Single Status pay and grading structure.

2.12 Through our discussion with management we have identified that the Council's defence of these claims is underway and will extend beyond the date of this Annual Report. We are satisfied that any liability in relation to these specific equal pay claims would be difficult to value with any accuracy at this stage and that disclosure as a contingent liability is appropriate at this stage.

PFI / PPP Arrangements

2.13 In the move towards full IFRS transition in 2010/11, the 2009 SORP adopted an interpretation of International Financial Reporting Interpretations Committee (IFRIC) 12 'Service Concession Arrangements'. As a result, the Council was required to account for its PFI/PPP arrangements 'on-balance sheet'.

2.14 We undertook a programme of audit work to obtain comfort that these transactions had been accounted for correctly and that the estimation of unitary charge payments into service, liability and interest elements were reasonable.

Revision of assumptions in the accounting of the Pension Liability

2.15 The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In relation to Financial Reporting Standard (FRS) 17, this is considered to be a non-adjusting post balance sheet event. At our request, the Council has included additional disclosure within its Pension Note.

Future Accounting, Audit and Regulatory Developments

2.16 A number of accounting, audit and regulatory developments will impact the Council's financial statements and audit arrangements for the 2010/11 financial year. The principal changes in relation to the following developments are discussed further within **Appendix B**:

- Full compliance with IFRS;
- Clarity International Standards on Auditing (ISA's);
- Carbon Reduction Commitment compliance

3. Performance

Financial Performance for the year ended 2009/10

Extracted from the Income and Expenditure Account:	2009/10 £m
Net operating expenditure	(771.549)
Income received (Council Tax, Government Grants and Non Domestic rates)	739.544
Deficit in year	**(32.005)**
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)	30.554
General Fund Deficit for Year	**(1.451)**
General Fund surplus balance brought forward	20.194
General Fund Balance carried forward	**18.743**

3.01 In 2009/10, North Lanarkshire Council spent £1.1 billion on the provision of public services. The Council's net operating expenditure, after deducting Service income, interest and losses on the disposal of fixed assets in 2009/10 was £771.5 million. This was met by Central Government and local taxation of £739.5 million, resulting in a deficit of £32.0 million. Following the adjustment to reflect statutory and non statutory practices the General Fund deficit for the year is £1.451 million

Revenue Expenditure 2009/10

3.02 The net deficit for the year was £1.451 million giving rise to a favourable outturn against the budgeted deficit of £4.714 million. This favourable difference of £3.263 million is net of the Council setting aside an additional equal pay provision of £9.232 million. The £12.495 million (£3.263 million plus £9.232 million) required to achieve this outturn position was primarily driven by the following underspends/overspends:

2009/2010 Outturn Position	£ M
Service Expenditure Reviews – A review of all non-essential areas of expenditure.	3.394
Extreme Winter Maintenance Costs	(2.463)
Recovery of Retrospective VAT	2.341
Savings on External Borrowings	1.874
Transfer to General Fund (Reassessment of Existing Provisions)	2.854
Transfer to General Fund – Underspends in 2009/10 Service budgets already earmarked for specific 2010/11 expenditure.	4.495
Total Movement Against Budget	**12.495**

The General Fund and Other Reserves

3.03 The Council's reserve strategy for 2009/10 was to maintain a reserve balance of £8 million. The net deficit for the year of £1.451 million has been deducted from the surplus of £20.194 million brought forward from 2008/09. This has resulted in a General Fund balance of £18.743 million being carried forward into 2010/11, represented by a contingency balance of £7.349 million and the carry forward of £11.394 million of committed resources into 2010/11.

3.04 In addition to the cumulative general fund balance of £18.743 million carried forward into 2010/11, the Council also holds funds in three other reserves:

Reserve Fund	£m	Purpose of Reserve / Fund
Repairs and Renewals Reserve	**1.486**	Resources available to meet repair and renewal of buildings and equipment.
Insurance Fund	**9.493**	Resources earmarked to meet outstanding claims.
Housing Revenue Account	**4.423**	Resources available to meet future running costs for council houses.

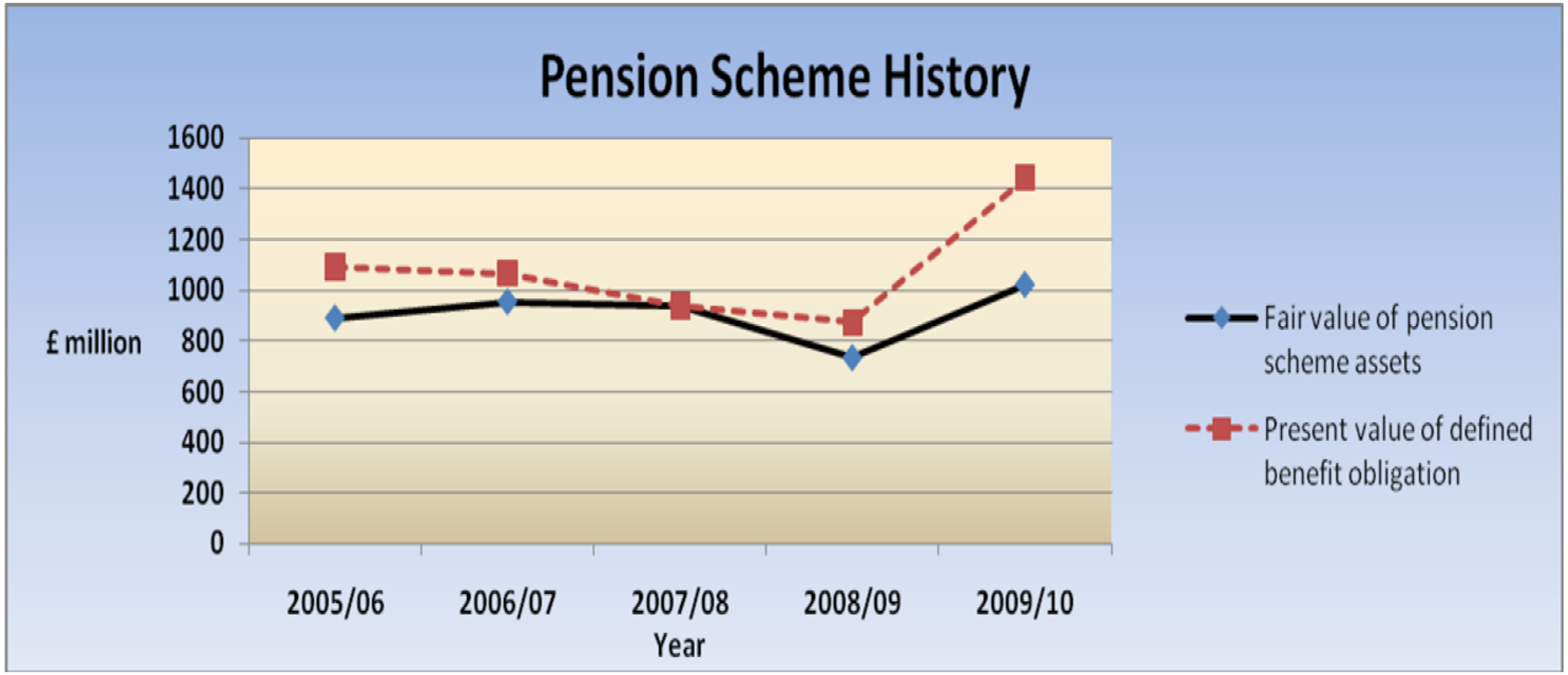
Pension Funding

3.05 As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. The Council participates in two pension schemes:

- The Strathclyde Pension Fund Local Government Pension Scheme (LGPS) is administered by Glasgow City Council in accordance with the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998. This is a defined benefit scheme, meaning that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Teachers' Pension Scheme is currently administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. However, as the Scheme is not able to identify each body's share of the underlying liabilities on a consistent and reasonable basis, the pension costs are accounted for as if it were a defined contribution scheme.

3.06 In 2009/10, the Council made LGPS pension contributions amounting to £31.223 million and Teachers Pension Scheme contributions amounting to £20.482 million.

3.07 The most material estimate included in the accounts is for pension liabilities in respect of employees who are members of the Council's pension schemes. The net pension liability at 31 March 2010 is £422.4 million. In 2007/08 the Council reported a small surplus on the pension scheme of £3.6 million. Since then the assets have increased in value by £80.4 million (8.5%) but in the same period, pension scheme liabilities have increased by £506.4 million (54%). This deterioration in the net position is primarily as a result of the global economic downturn and mortality rates. The Council is not required to recover this deficit immediately, but it is an important factor in the consideration of the level of future pension contributions, particularly in light of the future reductions in public sector funding.

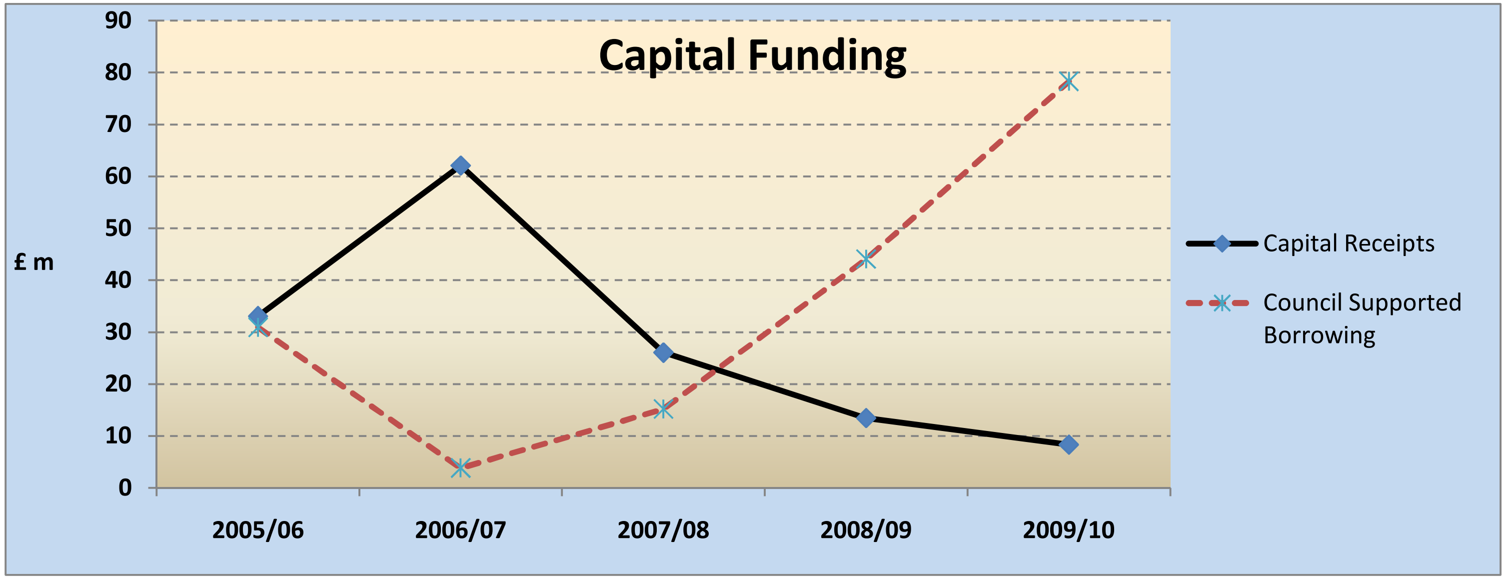


3.08 We have reviewed the reasonableness of the assumptions underlying the pension liability contained in the financial statements in accordance with ISA (UK&I) 540 'Audit of accounting estimates' and consulted with our pension specialists in relation to the actuarial assumptions used.

Capital Expenditure 2009/10

3.09 Total gross expenditure for Housing and Composite Services amounted to £150.6 million and included £53.8 million in housing, £20.3 million in schools, £34.8 million in leisure facilities, £3.645 million in social work facilities, £11.5 million in the roads and lighting networks and £13.1 million to improve town centres and other economic regeneration projects.

3.10 The £150.6 million spend compares with £113.2 million in 2007/08 and £121.2 million in 2008/09. The graph below highlights that the Council's reliance on capital receipts to fund the capital programme has declined significantly since 2006/07 and that the Council now has to place increased reliance on Council Supported Borrowing. Other methods of funding such as grants, revenue contributions and Government supported borrowing have not fluctuated to the same extent.



3.11 Each year, the Council produces a Treasury Management Strategy. This Strategy describes the Prudential and Treasury Indicators introduced and monitored on a regular basis to ensure that the Council's investment and borrowing plans are managed within a sound financial environment.

Trading Operations

3.12 Each of the Council's five trading operations (Building Cleaning, Catering, Grounds Maintenance, Waste Management, and Fleet Operations) has achieved its statutory performance target of achieving break even over a three year period.

.

Performance Management Arrangements

3.13 Performance is managed at three levels: Strategic; Service; and Operational within the Council and performance management arrangements are included in the annual review of service planning to ensure that they reflect the national and local context. Over several years the Council has developed its Performance Management Framework, at the heart of which sits 22 performance portfolios which collectively outline the Council's performance arrangements and how it aligns with the requirements of best value.

3.14 In April 2009 the Council's new performance management software, Perform NL was implemented. It was introduced council-wide as a one stop shop for performance information. The system allows single key entry, thus removing duplication, and will ultimately feed directly from back office systems, provide automatic reporting to managers and elected members; and provide customer facing performance information.

3.15 Unit costing was introduced to the 2010/11 service planning process for all Heads of Service. Whilst unit cost information is available in many areas of the Council's activities, the Council recognises that further improvement in the range and robustness of such information is required.

3.16 In addition, service prioritisation has been identified as one of the priority work streams of the Service and People First Agenda and work is underway to develop a framework to allow the Council to consider the relative priority of particular services when identifying financial savings.

Performance Indicators

3.17 The Accounts Commission has a statutory responsibility to specify information that Councils must publish about their performance in the form of statutory performance indicators. For 2009/2010, the Accounts Commission reduced the number of required Statutory Performance Indicator (SPIs) to 25

3.18 Over and above the 25 SPIs identified by the Accounts Commission the Council's reporting contains most of the other previous SPIs reported in 2008/09, as well as a number of key service measures already identified and measured as part of the Council's Performance Management Framework.

3.19 Auditors are expected to review whether arrangements are in place for collecting, recording and publishing performance data. Based on the work performed by us and by Internal Audit, we are content that most Services have systems in place for gathering and reporting performance information. However, our review of performance information for the indicators/measures selected for audit testing did identify a number of calculation errors which resulted in post-audit adjustments to performance data. We consider that this situation could be improved by an independent review by Service management and/or someone other than the person responsible for preparing it prior to submission for audit.

3.20 We noted that end of year processes and supporting documentation for current SPIs was suitably designed to meet guidance and that each PI has been subject to an internal checking process. However, our sample testing identified that the processes in place for the additional non-statutory key service measure reported under the new Direction were not so well established and could be further improved. The Council should ensure that performance indicators/measures are reviewed by an independent officer not directly involved in the preparation of the indicator prior to submission for audit and for reporting. The Council should also ensure that the processes and supporting documentation required for existing SPIs is expanded to include the additional service measures identified by the Council.

Action 2

Procurement

3.21 The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and deliver value for money and efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies. Results are summarised as non-conformance (0-24%), conformance (25-49%), improved performance (50-74%) and superior performance (75-100%).

3.22 All councils have been assessed by Scotland Excel and were collectively scored as non-conformant (average council score of 22.6%). This means that councils, collectively, are not achieving best value across their procurement activities.

3.23 North Lanarkshire Council scored 32% overall which takes it into the conformance band. In relative terms the Council is working above the average for local government, but there is still room for improvement.

3.24 Particular areas for improvement related to the specification of goods and services, contract and supplier management and procurement leadership and governance, where the Council scored 25% or less.

3.25 A summary of performance against the criteria outlined in the assessment and the actions the Council has put in place to drive improvement in each area has been summarised in the action plan at **Appendix A**. The Council should continue to progress actions designed to improve its Procurement Capability Assessment in order to enable it to demonstrate that its procurement activities are contributing effectively towards the achievement of best value.

Action 3

4. Governance and Control

Overall Governance Arrangements

4.01 The Council's political and management arrangements remain largely unchanged since the 2008 Audit of Best Value and Community Planning. However, the Council has moved from an eight weekly cycle to four committee cycles per year to accommodate meetings of the new Local Review Body and special meetings required by statutory changes. The Council is supported by the Policy and Resources Committee (including its three sub committees), six Service Committees, six Local Area Partnerships and Audit and Governance Panel and a Scrutiny Panel.

Partnership Working

4.02 The North Lanarkshire Partnership Board is responsible for setting strategic direction and ensuring the objectives outlined in the Single Outcome Agreement (SOA) are achieved. The North Lanarkshire Partnership Board is supported by four themed corporate working groups which monitor performance against the targets set out within the SOA. Local Area Partnerships (LAPs) supported by Local Area Teams are responsible for community planning in each of the Council's six localities. Clear evidence of partnership working exists.

4.03 The Council is part of the Clyde Valley Community Planning Partnership (CVCPP) which is tasked with progressing seven key work streams for prioritising and sharing services, securing increased efficiencies, generating cost savings and implementing common approaches in service delivery through sharing services with the other CVCPP member authorities. The Council is currently leading on two of these work streams: Waste Management and Social Transport and Fleet Management.

Community Engagement

4.04 The Council revised its Community Engagement Strategy in November 2009 following a consultation exercise across the partner agencies, local community forums and the Council's residents. The revised strategy aims to strengthen current arrangements and the residents' survey has been increased from every three years to an annual survey with over 3000 residents participating. The Citizens' Panel also has over 1800 residents participating in 3 questionnaires per annum.

4.05 A mapping exercise is underway across the six localities to identify the range of groups that the Council and its partners communicate and consult with and the varying methods used. The aim of the work is to reduce potential duplication, promote greater collaboration and develop a series of methods that are responsive and best suited to the needs of the Council's residents and service users. The outcomes from the work were considered by the North Lanarkshire Partnership Board in June 2010, when actions to further develop the Council's community engagement activities were agreed.

Risk Management

4.06 Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

4.07 The Risk Management Corporate Working Group is responsible for co-ordinating the identification and assessment of corporate risks. At a service level, each service formally considers and documents the risks which they face in the coming year and how this would impact upon their ability to meet their objectives.

4.08 Services monitor and review risk registers with the aim of ensuring that they remain up-to-date, complete and are of an appropriate quality to enable mitigating actions to be taken.

Internal Audit

4.09 The role of internal audit is determined by management and therefore its objectives differ from those of external audit.

4.10 As detailed within our Interim Management Letter (May 2010), we were able to place reliance on Internal Audit's work. We are grateful for this support and are continuing to liaise with Internal Audit on the joint work we may be able to undertake in relation to the 2010/11 plan, scoping out areas to avoid duplication and increase audit reliance.

Overview of Fraud Arrangements

4.11 As reported in our Interim Management Letter (April 2010), we have reviewed certain of the Council's overall corporate arrangements for the prevention and detection of fraud and corruption, through discussion of key risk areas with senior management as well as reviewing certain corporate wide controls and selected documentation.

4.12 In addition to considering these overall arrangements, we review on a rotational basis work undertaken by the Council, including Internal Audit on the controls in place for the prevention and detection of fraud and corruption within key financial systems.

National Fraud Initiative

4.13 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 informed of the resulting matches for investigation by management.

4.14 As reported in our Interim Management letter (April 2010), no exceptions were noted to our review of this area during the interim audit process. The National Report issued by Audit Scotland (National Fraud Initiative in Scotland – Making an Impact) made no specific reference to any shortcomings in North Lanarkshire Council other than the positive fact that together with Glasgow City Council it had so far achieved the highest level of outcomes from their 2008/09 benefit investigations.

4.15 Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and the Council has submitted a number of reports to the Audit and Governance Panel and Policy and Resources (Finance) Sub-Committee outlining how its participation in the NFI exercise is being taken forward.

Systems of Internal Control

4.16 The results of our work on systems of internal control have been communicated previously to the Audit and Governance Panel in our Interim Management Letter (April 2010). The report contained 22 recommendations to improve control, one of which was graded as higher risk concerning the need for the Council to re-assess its budget forecasts and identify with greater certainty the level of central government support it is likely to receive in the future.

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

Statement of Governance and Internal Control

4.18 The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. The Council's financial statements include a Statement on the System of Internal Financial Control. 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.

4.19 The Council has however opted not to include the full Corporate Governance Statement for 2009/10 which, although not mandatory in Scotland, is considered best practice. Instead, the Council has traditionally chosen to publish its Corporate Governance Statement in its annual Performance Report. The Council should also consider including an Annual Governance Statement in its annual accounts for 2010/11.

Action 4

Follow Up of Outstanding Recommendations

4.20 We followed up the Council's progress in implementing audit recommendations made by us in the prior year. Our Follow Up of Prior Year Recommendations Report (April 2010) was considered at the Audit and Governance Panel meeting on 12 May 2010. Of the 51 agreed recommendations made in the previous reports, there are no outstanding actions with a high priority risk rating. Progress in implementing the outstanding recommendations was as follows:

Status	Total
Action Implemented	31
Partially implemented	8
Little Action to Date	-
Not Yet Due	10
No Longer Applicable	2
Total	**51**

Appendix A – Action Plan

Ref	Issue and Recommendation	Risk Rating	Management Response, Responsible Officer and Implementation Date
Action 1	**Issue:** Regardless of the perceived strength or weakness of an authority's financial position, difficult decisions are going to have to be made in meeting the significant funding challenges ahead. **Recommendation:** As part of initiatives to generate efficiency savings, management should consider six key areas that our experience in other sectors has shown may be relevant in addressing the financial challenges ahead: • Honesty and awareness of the size of the challenge • Strong leadership • Need to engage with the whole organisation and external stakeholders • Realistic and detailed plans to resolve the situation • Rigorous implementation (programme management arrangements) • Financial control and discipline Management need to work quickly to ensure that tangible savings and change initiatives are in place for 2011/12 (and beyond). These plans should be flexible and be refreshed regularly in order to address the ever-changing environment and requirements of the forthcoming Scottish Budget announcement.	● High	**Management Response** The Corporate Management Team is fully aware of the need to ensure that it responds appropriately to the challenging financial outlook facing the Council. A number of reports have been submitted to elected members highlighting the likely financial outlook for the Council and the Council's Transformation Programme has been established to provide a co-ordinated approach to the management of all our improvement activity including the identification of efficiency options. Progress to date has primarily concentrated on the key Phase 1 priority workstreams identifying a range of proposed savings options across the key themes of Workforce Deployment, Service Prioritisation, Asset Management, Procurement and Income Generation." The Council will continue to review and, where appropriate, revise, key financial planning assumptions and resulting financial projections and will continue to ensure that elected members are provided with realistic and up-to-date commentary on the Council's financial outlook to support effective decision-making. **Responsible Officer** Chief Executive and Executive Director of Finance and Customer Services **Implementation Date** November 2010 and as appropriate thereafter

Ref	Issue and Recommendation	Risk Rating	Management Response, Responsible Officer and Implementation Date
Action 2	**Issue:** Our review of performance information for the indicators selected identified a number of calculation errors which resulted in post-audit adjustments to performance data. **Recommendation:** The Council should ensure that performance indicators/measures are reviewed by an independent officer not directly involved in the preparation of the indicator prior to submission for audit and for reporting. The Council should also ensure that the processes and supporting documentation required for existing SPIs is expanded to include the additional service measures identified by the Council.	● Low	**Management Response** The Council will remind Services of the need to comply with existing requirements over the checking of performance data and year-end guidance will be revised and issued to Services to clarify that existing year-end SPI processes should also be applied to key service measures. **Responsible Officer** Corporate Service Improvement Manager, Chief Executive's Office **Implementation Date** January 2011
Action 3	**Issue:** North Lanarkshire Council scored 32% overall which takes it into the conformance band. In relative terms the Council is working above the average for local government, but there is still room for improvement. **Recommendation:** The Council should continue to progress actions designed to improve its Procurement Capability Assessment in order to enable it to demonstrate that its procurement activities are contributing effectively towards the achievement of best value.	● Medium	**Management Response** Procurement is one of the key work streams of the Council's Transformation Programme and while it is recognised that good progress has been made to improve procurement capability across the Council, there is still significant scope for further improvement. The Council will undertake a strategic review of procurement commencing in December 2010. The review will consider ways in which to accelerate improvement across all eight themes detailed in the procurement capability assessment framework. The review will be informed by the results from the 2009 capability assessment and the 2010 assessment scheduled for completion November 2010. The review and the resultant report, recommendations and improvement plan are scheduled for completion by May 2011. **Responsible Officer** Procurement Manager **Implementation Date** November 2010/May 2011

Ref	Issue and Recommendation	Risk Rating	Management Response, Responsible Officer and Implementation Date
Action 4	**Issue:** The Council has opted not to include the full Corporate Governance Statement for 2009/10 which, although not mandatory in Scotland, is considered best practice in CIPFA's Delivering Good Governance in Local Governance as referenced in the 2009 SORP Guidance Notes. Instead, the Council has traditionally chosen to publish its Corporate Governance Statement in its annual Performance Report. **Recommendation:** The Council should consider including an Annual Governance Statement in its annual accounts for 2010/11.	● Low	**Management Response** The Council currently complies with ACOP by including a Statement of Internal Financial Control in its annual accounts and has chosen to publish its governance statement in the annual Performance Report which is issued in October each year. The Council considers that this represents the most appropriate locations for each of these statements. We will however, review this situation with regard to the 2010/2011 statements. **Responsible Officer** Executive Director of Finance and Customer Services/Chief Executive **Implementation Date** March 2011

Appendix B – Future Accounting, Audit and Regulatory Developments

As noted in Section 2 a number of accounting, audit and regulatory developments will impact the Council's financial statements and audit arrangements for the 2010/11 financial year. Further details in respect of the most significant changes are detailed below:

International Financial Reporting Standards (IFRS)

The adoption of International Financial Reporting Standards (IFRS) represents a significant change in financial reporting in the UK public sector. The process has already started for local authorities, as this year's SORP adopted the new accounting arrangements for PFI and service concessions, while previous SORPs have adopted IFRS style accounting for financial instruments, such as fair value disclosures in respect of the Council's financial assets and liabilities.

The IFRS-based Code of Practice on Local Authority Accounting will complete the transition process and applies to local authority accounts from 1 April 2010. As well as preparing the 2010/11 accounts under IFRS, authorities must restate their balance sheet at the point at which the Code is adopted (1 April 2009), and present restated comparatives for 2009/10.

The format of the financial statement will change, with the Income and Expenditure Account and Statement of Total Recognised Gains and Losses being combined to form a new Comprehensive Income and Expenditure Statement. In addition, the Statement of Movement on the General Fund Balance will be replaced by the new Movement in Reserves Statement.

As well as these changes to the format of statements, there will be significantly increased levels of disclosure in the notes to the account and certain items may be brought onto the balance sheet for the first time.

Work has already been started by the Council's finance staff to ensure this change is managed effectively and the transition to full IFRS is a smooth one. A full restated balance sheet has been prepared and work is ongoing to provide a full set of restated 2009/10 comparatives for external audit review in advance of the 2010/11 year end process.

Clarity ISAs

The Auditing Practices Board (APB) has issued 33 clarity ISAs (UK &I), based on the IAASB's clarity International Standards on Auditing (ISAs), effective for audits of financial statements for periods ending on or after 15 December 2010.

A number of the standards have been completely revised and new requirements have been introduced. There are approximately one-third more explicit requirements applying to entity audits and extra new requirements that apply to group audits, with about half of the total increase resulting from clarification of the existing standards, and about half relating to new requirements designed to improve audit quality and, consequently, financial reporting.

The actual impact on cost of audits will depend on a variety of factors such as the effectiveness of current execution; the size and complexity of the entity; and how effectively we can work with you to obtain any additional information needed to enable us to perform the required procedures. The full impact of Clarity ISAs will be detailed within our 2010/11 audit plan, scheduled for presentation to the Audit and Governance Panel on 16 February 2011.

Carbon Reduction Commitment (CRC)

This mandatory emissions trading scheme started in April 2010. It aims to promote energy efficiency and help reduce carbon emissions. It is UK-wide, covering large businesses and public sector organisations. Authorities with an annual spend of more than £400,000 - 500,000 on electricity each year are likely to be in the scope of CRC and North Lanarkshire has registered to participate.

As a participant, the Council must monitor energy use and file an annual return with the Environment Agency which sets out their energy usage. The Council will then have to purchase allowances from the Government to use energy in the following year. The Government will compare the energy efficiency of each participant by ranking them in a published league table.

The first annual reporting year is April 2010 – March 2011 and the first sale of allowances will take place in April 2012 – March 2013.

Appendix C – 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 Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2009/10 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document report to 17 February 2010 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 on 17 February 2010)
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Members and the Controller of Audit.
Potential Effects of Material Risks and Exposures	Audit Planning document (17 February 2010).
Audit Adjustments	Section 3 of our Annual Report to Members and the Controller of Audit.
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 22 September 2010.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (12 May 2010), Section 5 of our Annual Report to Members and the Controller of Audit.
Fraud	Discussed fraud arrangements with the Audit Committee (17 February 2010) and management throughout audit process.

Communication Required under ISA 260	Reference/Comment
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2009/10 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit and Governance Panel on 17 February 2010.
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 22 September 2010.
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 2009/10

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 2009/10 are summarised below:

Formal Output	Timing
Audit Plan and Approach	February 2010
Detailed Timetable for 2009/10 Financial Audit	February 2010
Interim Management Letter Including Follow Up of Prior Year Recommendations	April 2010
Audit Opinion	22 September 2010
Annual Report to Elected Members and the Controller of Audit	22 October 2010

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”), NLC 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. NLC 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, NLC 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.

© 2010 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.