
South Lanarkshire Council

Annual Report to Members and the
Controller of Audit for the year
ended 31 March 2012

October 2012

2011/12 Audit

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

Introduction – Section 1

Our overall responsibility as external auditor of South 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 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 “ISA (UK&I) 260” - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of South Lanarkshire Council (‘the Council’).

This Annual Audit Report to Members and our presentation to the November 2012 Risk and Scrutiny Forum, together with previous reports to the Risk and Scrutiny Forum throughout the year, discharges the requirements of ISA 260. It contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Financial Statements and Audit Opinion – Section 2

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2012 is **unqualified**.

We proposed a number of adjustments during the audit. All of these adjustments have been processed by management in the final version of the 2011/12 financial statements.

The Council is involved in litigation in respect of equal pay claims. This continues to represent a significant audit risk as the sums of money involved could be material to the financial statements. The pre-hearing review, scheduled to consider the 555 JES, was decided and handed down on 18 June 2012. The Council, having taken legal advice, has submitted and had accepted, an appeal. The Council has also applied to the Employment Tribunal for consideration of a review. We have examined the accounting treatment and confirmed we are satisfied with the Council’s decision to continue recognising a contingent liability in the 2011/12 financial statements. This accounting treatment is appropriate rather than a provision given the current uncertainties over final outcomes and uncertainties over the timing of any resulting settlements.

In response to our 2010/11 Annual Report findings, officers undertook a review of the Council’s Scheme of Delegation and a recommendation was approved by the Executive Committee in September 2012 to amend the Scheme of Delegation, aligning the Councils approach to ‘Bye now, pay later?’ guidance (issued by Audit Scotland in 2003)

2011/12 Financial Management and Performance – Section 3

The Council budgeted for a break-even position in 2011/12 but managed to achieve a £1.994 million under spend on the General Fund. This has been carried forward to contribute to the Councils approved Reserves Strategy. The cumulative carry forward on the General Fund is now £10.470 million.

In achieving a surplus against the General Fund, the Council reported achievement of efficiency targets for the year across all Resources of £27.148 million, comprising of £23.973 million cash efficiencies and £3.175 million in non cash efficiencies.

In total, the Council has available useable Reserves at 31 March 2012 of £102.961 million. Useable reserves include: a repairs and renewals fund, a capital fund and an insurance fund. These reserves are designed to enable the Council to deal with unforeseen events and help manage the future period of heightened economic uncertainty.

Financial Outlook – Section 4

The Council has acknowledged the financial challenges which exist in its 2012/13 revenue budgets and 2012 to 2014 medium term financial plans.

A breakeven budget has been approved for 2012/13, with revenue expenditure of £718.216 million (2010/11 budget £715.521 million). To achieve this position an efficiency plan is in place for savings of £12.249 million. All Resources are aware of the targets and have reported at Resource Committees where the savings can be achieved.

In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.

The Council's Executive Committee approved the Council's Welfare Reform Action Plan on 12 September 2012 and agreed on the approach to communication of Welfare Reforms. A Council Working Group to ensure a co-ordinated approach to the Welfare Reform Agenda has been established.

Governance and Control – Section 5

We have assessed the Council's overall governance arrangements including a review of Council and key Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place. We have also considered key areas of risk to the Council including partnership working; service sustainability; performance management; and people management.

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. The Council has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted, along with a self evaluation of developments and areas for further improvement. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

The Council was able to demonstrate a working and responsive internal audit function. In general, the internal audit function demonstrated appropriate working practices in line with our expectation of an effective internal audit function and in accordance with the Council's Internal Audit Manual.

1. Introduction

Purpose of this Report

- 1.01 Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Council’s attention to matters of significance that have arisen out of the 2011/12 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

- 1.02 Our overall responsibility as external auditor of 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 2011. 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 Auditor General for Scotland and other auditors such as Audit Scotland’s Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives.
- 1.03 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 Audit Report to Members and our presentation to the Risk and Scrutiny Forum, together with previous reports to the Risk and Scrutiny Forum throughout the year, discharges the requirements of ISA 260.
- 1.04 Our audit work during the year was performed in accordance with the plan that we presented to the Risk and Audit Scrutiny Forum in February 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this report.

Acknowledgement

- 1.05 We would like to formally extend our thanks to the Council’s managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Glasgow
31 October 2012

2. Financial Statements and Audit Opinion

Audit Opinion

- 2.01 We have completed the audit of the Council's accounts in line with current International Auditing Standards and have given an **unqualified** opinion that the financial statements of the Council for 2011/12 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 properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
- 2.02 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Directors' Report.

Audit Approach

- 2.03 Our audit approach was set out in our Annual Audit Plan as presented to the Risk and Audit Scrutiny Forum Members in February 2012. There have been no changes to our audit plan.

Audit Process

- 2.04 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The working papers provided were of a good standard, reflecting our deliverables listing issued to management. We would like to formally express our thanks to the finance team for producing a number of detailed working paper files in support of the financial statements. Overall we believe an efficient audit process was achieved and an effective working relationship continues to exist with your officers.

Basis of Preparation

- 2.05 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

Misstatements and significant audit adjustments

- 2.06 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.
- 2.07 A number of adjustments to the format of, and figures within, the financial statements have been discussed during the course of our audit. **All audit adjustments have been processed** in the final financial statements.

Significant Accounting Issues Identified and Reporting

- 2.08 During the course of our audit we have identified a number of issues that we are required to report upon formally. The most significant of these audit areas are set out below.

Heritage Assets

- 2.09 Provisions for accounting for heritage assets have been newly included in the 2011/12 Code of Practice on Local Authority Accounting (the Accounts Code).
- 2.10 Heritage assets must meet the general definition of an asset, defined as:
- “a resource controlled by the authority as a result of past events and from which future economic benefits or service potential are expected to flow to the authority”*
- 2.11 The detailed requirements for disclosures in relation to heritage assets, include:
- An indication of nature and scale of assets held;
 - The authority’s policy for acquisition, preservation, management and disposal – including a description of records maintained and the extent of access (this can be cross-referenced to another document);
 - For assets not recognised in the Balance Sheet, the reasons why not and an explanation of the significance and nature of the assets;
 - Reconciliation of Balance Sheet movements, separating classes of assets measured at cost and at valuation. Information on valuations (date, method, involvement of external valuers, limitations); and
 - A summary of acquisitions, disposals and impairments for the last five years (if practicable before 1 April 2010).
- 2.12 The accounting requirements for heritage assets have been designed to be less rigorous than those that would normally apply for property, plant and equipment, particularly to encourage disclosure of information on assets that might not otherwise have been recognised and/or measured.
- 2.13 We have performed work around the Council’s disclosure of heritage assets and are satisfied that the accounting treatment and disclosure requirements have been met.**

Exit Packages

- 2.14 The *Code of practice on local authority accounting in the UK 2011/12* (2011/12 Code) requires Councils to disclose the number and cost of agreed exit packages, reflecting the termination benefits recognised in the financial statements. This new requirement for 2011/12 saw the inclusion of this information within the Remuneration Report for the first time.
- 2.15 We have performed work around the Council’s disclosure of exit packages and are satisfied that the disclosure requirements have been met.**

Early Retirement Approval

- 2.16 As reported in our 2010/11 Annual Report to Members, the Council followed its usual early retirement approval procedures when approving exit packages, however these were not fully aligned to ‘Bye now, pay later?’ guidance (issued by Audit Scotland in 2003) which recommends that elected members (audit committee or equivalent) receive summary information on the number and costs of early retirement decisions and specifically elected members should be involved in approving early retirement decisions for senior staff.
- 2.17 Previously, the Council had delegated the authority to approve early retirement to the Executive Director of Finance and Corporate Resources.
- 2.18 In response to our 2010/11 Annual Report findings, officers undertook a review of the Council’s Scheme of Delegation and a recommendation was approved by the Executive Committee in September 2012 to amend the Scheme of Delegation.
- 2.19 This amendment clarified that future early retirement/voluntary severance of Chief Officers and Statutory Officers will be presented to the Executive Committee for approval.

- 2.20 This amendment clarifies that Senior Officers are: the Chief Executive, Executive Directors and holders of statutory positions such as the Chief Financial Officer, the Monitoring Officer and the Chief Social Worker. In the Council, these cover the Chief Executive, all Executive Directors and the Monitoring Officer (currently the Head of Legal Services). In addition, these reports will contain a breakdown of the full financial costing to the Council of such packages.
- 2.21 The request for authorisation for amendment to the Scheme of Delegation also provided details of the cost of early retirement of an Executive Director which had previously been approved through the delegated authority, but as the leave date was not yet past, clarification of the nature and cost of the early retirement was provided to the Executive Committee for noting.
- 2.22 We are satisfied that the Council’s Executive Committee has been appropriately interpreted as the elected members, Audit Committee or equivalent and that the principles of ‘Bye now, pay later?’ have now been adopted by the Council.**

Contingent liabilities – Equal Pay

- 2.23 South Lanarkshire Council is engaged in an Employment Tribunal in respect of multiple pay claims. Just under 3,000 equal pay claims have been lodged with the Employment Tribunal. The pre-hearing review outcome was handed down on 18 June 2012, detailing the following:
- The Tribunal found that the 555 Scheme was not a Job Evaluation Study as mentioned in Section 1(5) of the Equal Pay Act 1970, and took the view that the Council’s scheme does not look at every aspect of every job;
 - Significantly the Tribunal found in the Council’s favour that its Scheme did not discriminate on the grounds of sex under Section 2A(2A) (a); and
 - The Tribunal were also of the view that the evaluations, or at least some of them, were not suitable to be relied upon and this relates to the perceived transparency and complexity of the Scheme; coupled with the (lack of) understanding of some employees.
- 2.24 The pre-hearing review/tribunal’s decision represents a mixed result for the Council and, on the advice of legal counsel, the Council has appealed this decision.
- 2.25 This continues to represent a significant audit risk as the sums of money involved could be material to the financial statements. As a result, under accounting standards, we were bound to consider:
- What form of liability, if any, should be recognised in respect of the Council’s equal pay claims; and
 - What is the value of this liability?
- 2.26 Management continues to treat these claims as a contingent liability within the financial statements, rather than a provision, based on the following rationale:
- Single Status was implemented on a phased basis between 1999 -2004;
 - Independent job evaluation advice for the robustness of the job evaluation scheme;
 - The final outcome of the Tribunal proceedings is not certain, and it is likely to be several years before any decision is reached; and
 - Even if a proportion of claims are successful, there is uncertainty around the amount of settlement payable to each applicant for arrears. There is currently no basis upon which to calculate.
- 2.27 We performed work around management’s accounting treatment of equal pay claims and concluded it to be satisfactory.**

Action 1

Other Year End Findings

- 2.28 During our audit work on Property, Plant and Equipment, it was again identified that the Oracle Fixed Assets (OFA) system is not able to effectively process a range of transactions relating to property, plant and equipment revaluations.
- 2.29 Reconciliations are undertaken on a periodic basis to keep track of the true value of the assets' revaluation reserve; however this work is often time consuming and an inefficient use of time. This issue was first raised in our 2010/11 Annual Report to Members.
- 2.30 The Council is in the process of testing an update of the Oracle software to try to address these system issues. This work should be completed to ensure the Council has a fit for purpose fixed asset module going forward.**

Action 2

3. 2011/12 Financial Performance

2011/12 Financial Performance

- 3.01 The Council's General Fund and Housing Revenue Account financial performance for 2011/12 is summarised in the table below with 2010/11 comparatives included. The Council achieved a positive General Fund outturn of £1.994 million against a breakeven budget.

	2011/12		2010/11	
	£,000		£,000	
Net Cost of Services	(707,660)		(606,088)	
Taxation and Non-Specific Grant Income	726,552		725,446	
Other Income and Expenditure (Financing and Investment)	<u>(39,150)</u>		<u>(48,441)</u>	
Surplus / (Deficit) on Provision of Services	<u>(20,258)</u>		70,917	
	General Fund	HRA	General Fund	HRA
Surplus / (Deficit) on Provision of Services	(11,561)	(8,697)	81,297	(10,380)
Adjustments between accounting basis and funding basis under regulations.	<u>16,991</u>	<u>13,561</u>	<u>(67,705)</u>	<u>14,122</u>
Net Increase before Transfers to Reserves	5,430	4,864	13,592	3,742
Transfers (to)/from Reserves	<u>(3,436)</u>	=	<u>(11,592)</u>	=
Increase in Year	1,994	4,864	2,000	3,742
Opening Balance	<u>8,476</u>	<u>4,955</u>	<u>6,476</u>	<u>1,213</u>
Closing Balance	<u>10,470</u>	<u>9,819</u>	<u>8,476</u>	<u>4,955</u>

- 3.02 An exceptional pensions past service gain of £138.010 million was included in the 2010/11 results. This contributed to the significantly lower Net Cost of Services in the prior year. This gain related primarily to a change in the discount rate applied to pension benefits from the Retail Price Index to the Consumer Price Index. This change in index rate reduced the Council's pension fund liability to £236.140 million. The fund liability is £337.085 million as at 31 March 2012.

Reserves Strategy

- 3.03 The Council operates an approved Reserves Strategy as part of its medium term financial planning to help ensure financial stability over the next spending review period. The Reserves Strategy outlines planned movements in Usable Reserves during the period to 2013/14. The Strategy includes a closing target for the General Fund at 2013/14 of between £7.5 million and £10 million, (the 2011/12 closing balance exceeds this range, being £10.470 million).
- 3.04 The Total Usable Reserves of the Council as at 31 March 2012 are £102.961 million, an increase of £7.949 million from the 2010/11 closing position of £95.012 million.

Reserves at 31 March 2012	£'000	Transfers during 2011/12
General Fund Balance	10,470	£3.436 million transfer in year.
Housing Revenue Account	9,819	n/a
Capital Receipts Reserve	30,125	n/a
Repairs and Renewals Fund	17,007	To finance expenditure incurred in repairing, maintaining and replacing Council assets. (£3.691 million transfer in year).
Insurance Fund	7,839	Each Council Resource contributes to this fund during the year, with the balance used to meet the costs of fire damage, public liability, employer liability and various other claims (£702,000 transfer in year).
Capital Fund	27,701	Earmarked by the Council to fund individual capital programmes and to fund the repayment of loans fund principal. (£7.829 million transfer in year).
Total Useable Reserves	102,961	

Efficiency Savings

- 3.05 The Council is required to contribute 2% savings towards the Scottish Governments Efficiency Targets annually.
- 3.06 The Efficiency Statement, submitted by the Council to CoSLA and the Scottish Government, reflecting efficiency savings across all Resources for 2011/2012 totalled £27.148 million. This is made up of £23.973 million cash efficiencies and £3.175 million in non cash efficiencies. Efficiency Savings totalling £13.866 million are presented over the headings of Procurement, Shared Services and Asset Management.

Trading Operations

- 3.07 South Lanarkshire Council operates 5 trading operations (Facilities Management, Fleet Services, Grounds Maintenance, Roads, and Property services). Each trading operation achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2011/12 was £10.492 million (2010/11 £10.009 million), with a cumulative surplus of £32.462 million achieved over the latest three year period.

Capital Expenditure

- 3.08 The Council had a revised general fund capital programme budget of £120.081 million for 2011/12, and reported actual expenditure of £118.110 million. £1.592 million of projects will carry forward into 2012/13 to be managed as part of the 2012/13 programme. In addition, £37.148 million was spent on the Housing Programme in 2011/12 against a budget of £40.884 million.
- 3.09 The significant general fund capital projects of the Council include the Primary Schools Modernisation project and the Roads Investment Programme. In addition investments have been made in the Council's leisure centres and swimming pools.

Pension liability

- 3.10 South Lanarkshire Council, like most other public sector bodies, holds on its balance sheet a significant net liability in respect of employee retirement benefits which at 31 March 2012 had risen to £337.085 million (2011: £236.140 million). Council employees contract into the Strathclyde Pension Fund (SPF) which is administered by Glasgow City Council.
- 3.11 In substantiating the pension liability at the year end, we obtained fund valuation information from Glasgow City Council and verified the asset data against third party information, such as published equity prices, where possible. We reviewed the portion of the total SPF fund liability attributed to South Lanarkshire Council to ensure it was reasonable given the Council's share of scheme participants and used internal PwC specialists to assess the assumptions used by the actuary. No financial adjustments were proposed as a result of our work.

Statutory Performance Indicators

- 3.12 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 2011/2012, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).
- 3.13 Auditors are required to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures undertaken by the Research function of the Council's Finance and IT Resource, the Council was able to demonstrate the basis for the SPIs reported.

4. Financial Outlook

2012/13

- 4.01 The Council approved its 2012/13 revenue budget of £718.216 million (2010/11 budget £715.521 million) in February 2012, which provided for a break-even position.
- 4.02 As reported to the Executive Committee in September 2012, the Council is still anticipating this breakeven position for the year, with an under spend on the General Fund Revenue Account of £0.095 million to 3 August 2012. This is likely to continue to present challenges for the Council and requires a significant balance of efficiencies to be identified.
- 4.03 The 2012/13 budget indicates savings of £12.249 million are required. The required savings were communicated to Resources and special Resource Committee meetings were held to approve the specific areas where savings may be realised.
- 4.04 The 2012/13 budget was set based on the total General Revenue Funding figure of £591.716 million which was part of a package which individual councils agree to, including a council tax freeze, or be subject to the removal of the needs based element of the grant.
- 4.05 For 2013/14 savings of £12.2m are required. For future years, the estimated levels of savings required are £14.2m for 2014/15 and £18.1m for 2015/16. By extending the projections to 2015/16, these estimates look beyond the current spending review period, which covers the three years to 2014/15 and therefore there is a greater risk of unknown attached to the estimated figures for 2015/16.
- 4.06 The Council Connect 2012-2017 Plan was approved by the Executive Committee in October 2012.
- 4.07 The plan identifies the following priorities over the next five years, or until the mid-term review in 2014/2015:
- Improve services for older people;
 - Protect vulnerable children, young people and adults;
 - Improve road network and influence improvements in public transport;
 - Support the local economy by providing the right conditions for growth, improving skills and employability;
 - Tackle disadvantage and deprivation;
 - Develop a sustainable Council and communities;
 - Raise educational achievement and attainment;
 - Improve the quality, access and availability of housing; and
 - Strengthen partnership working, community leadership and engagement.
- 4.08 Pressures on the Council's spending include prices for goods and services increasing and inflationary pressures in energy and fuel costs to stretch beyond headline inflation. In addition, factors such as the ageing population and the economic downturn are driving increased demand for some council services. These demographic changes place more financial pressure on the provision of services for older people as well as increased demand for infrastructure and services, such as housing, social care and schools.
- 4.09 The Council remains committed to completing its key capital programmes and has approved a revised composite capital programme budget of £117.737 million as at July 2012 (2011/12 budget £120.081 million).

Welfare Reform

- 4.10 In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.
- 4.11 Amongst the key proposals set out in the Act are:
- Universal Credit will be introduced, replacing many existing benefits such as Job Seekers Allowance and Tax Credits.
 - Restrictions to the value of the amount of benefits individuals can receive.
 - Stricter rules regarding the awarding of benefits to people with disabilities
 - Housing Benefit will be subsumed within Universal Credit with local authorities no longer involved in its administration.
 - Councils may no longer receive the grant received currently for administering benefits (in the case of South Lanarkshire this totals £2.4 million)
 - Council Tax Benefit will be abolished and replaced by local schemes of assistance.
 - Councils will only receive around 90% of the current level of Council Tax Benefit claimed.
- 4.12 The Council's Executive Committee approved the Council's Welfare Reform Action Plan on 12 September 2012 and agreed on the approach to communication of Welfare Reforms.
- 4.13 A Council Working Group to ensure a co-ordinated approach to the Welfare Reform Agenda has been established. The group, chaired by the Executive Director (Finance and Corporate Resources), has the following remit:
- monitor implementation of the Welfare Reform Agenda.
 - identify implications for Council budgets.
 - review and develop policies and procedures.
 - develop and implement a communication strategy
 - ensure that impacts and responses to the changes are effectively reported to Committee.
- 4.14 A key aspect of the work of the Council's Welfare Reform Group has been the development of an action plan, through which the tasks required to successfully implement Welfare Reform are intended to be planned, coordinated and monitored.
- 4.15 Universal Credit will be introduced for new claimants from October 2013. Thereafter there will be a 2 year programme of migration of existing claimants to Universal Credit, as they go through changes in their basis of claim. Remaining claimants will then (from October 2015) begin to be moved to Universal Credit.
- 4.16 Council Tax benefit will no longer be paid to Councils from the Department for Work Pensions (DWP). In Scotland an amount for Council tax support is being passed from DWP to the Scottish Government as part of the block grant settlement.
- 4.17 In April 2013, the Social Fund Community Care Grants and Crisis loans for living expenses will be abolished and the funding transferred to Scottish Ministers. We understand that funding of £25-30million will be transferred to Scottish Ministers, on the basis of the equivalent Social Fund spend for 2012/13.
- 4.18 The impact of Welfare Reform is far reaching and, at this stage, the implications are unlikely to be fully understood. This will have a significant impact on Council arrangements across Resources.
- 4.19 The Council should continue to develop its Welfare Reform Action Plan, through which the tasks required to successfully implement Welfare Reform, can be planned, coordinated and monitored.**

Action 3

5. Governance and Control

Overall Governance Arrangements

- 5.01 Under the Code of Audit Practice we are responsible for reviewing and reporting on the Council's corporate governance arrangements as they relate to:
- reviews of corporate governance and systems of internal control, including reporting arrangements;
 - the prevention and detection of fraud and irregularity;
 - standards of conduct and arrangements for the prevention and detection of corruption.
- 5.02 Following approval in 2011, the Council undertook a restructuring exercise to merge four of its resources into two. This resulted in the Finance & Information Technology Resource merging with Corporate Resources and Enterprise Resources merging with Community Resources. The intention is that this will enable the Council to deliver efficiencies.
- 5.03 It was reported in our Interim Management Letter 2011/12, that the budgetary setting process did not yet reflect the re-structured resources. We understand that going forward, the heads of the restructured resource will have an integrated budget setting process and reporting to the new established Resources Committees, in order to ensure that efficiencies are gained through the restructure and thereby eliminate any duplication of effort. This matter has been documented under Action Point 1 in our Interim Management Letter 2011/12.
- 5.04 Notwithstanding the above restructuring, there have been no significant changes to the overall governance arrangements operating at the Council during 2011/12 and overall governance structures and activities are as expected. Following the local elections in May 2012, new committee members have been introduced to reflect the current political landscape within the Council.

Statement of Governance and Internal Control

- 5.05 The Council is required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The Council's Statement of Governance and Internal Control was included in the financial statements.
- 5.06 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

Accounting Systems and Systems of Internal Control

- 5.07 It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.
- 5.08 The results of our work on systems of internal control were communicated to the Risk and Audit Scrutiny Forum in our Interim Management Letter dated May 2012. The report contained two recommendations to improve controls, neither were graded as higher risk. Management has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion. Progress will be reviewed in 2012/13 as part of our follow-up work.

Follow up of outstanding recommendations

- 5.09 We followed up the Council's progress in implementing recommendations made in the prior year. Our 'Follow Up of prior year Audit Recommendations' report has been considered previously at the Risk and Audit Scrutiny Forum. At the time of reporting, of the 16 agreed actions, progress was as follows:

Status	Total
Implemented	12
Action in Progress	3
Not yet implemented	-
Not yet due for implementation	-
No longer applicable	1
Total Recommendations	16

- 5.10 We are pleased to report that, of the Actions in Progress, one has now been implemented and the remainder are due for implementation before the end of the financial year. This demonstrates a good commitment by Management to improve the overall control environment within the Council.

Prevention of Fraud and Corruption arrangements

- 5.11 As reported in our Interim Management Letter, we have considered the Council's arrangements for the prevention and detection of fraud and corruption. This was performed through discussion of key risk areas with senior management and review of selected controls and documentation. We do not believe that the control weaknesses identified in the Council's arrangements during our fieldwork have directly contributed to any fraudulent activity that has been uncovered. We nevertheless recommend that the agreed actions are undertaken to further reduce the opportunity and likelihood of fraudulent or corrupt activity.
- 5.12 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The findings of the most recent NFI exercise were reported by Audit Scotland in May 2012.
- 5.13 The Council must complete the next NFI exercise by March 2013; investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and has taken steps to review its NFI arrangements.

Internal Audit

- 5.14 As part of our procedures over the governance arrangements in place at the Council and in follow up of the changes in the structure and reporting lines adopted, we undertook a review of the Council's internal audit effectiveness during the year.
- 5.15 The Council was able to demonstrate a working and responsive internal audit function. Our review found that in general the internal audit function demonstrated appropriate working practices in line with our expectation of an effective internal audit function and in accordance with the Council's Internal Audit Manual, which had been updated and approved by the Risk and Audit Scrutiny Forum in October 2011.
- 5.16 We are pleased to report that there were no areas of high risk identified.

- 5.17 Internal audit has also recently completed a review of compliance with the CIPFA Code of Practice and Best Practice Guidance for Audit Committees. The outcomes for this are scheduled to be reported to the Risk and Audit Scrutiny Forum in November 2012 and takes account of feedback from our review.

National Performance Audits

- 5.18 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Reports: *Maintaining Scotland's Roads – A follow-up Report* (published February 20011).

Maintaining Scotland's Roads

- 5.19 Overall, the Council was able to demonstrate it had considered the report at the appropriate level and had taken the original recommendations into account.
- 5.20 The assessment team did note that the Council's approach to addressing the road maintenance backlog through user surveys was highlighted by the report and a key focus of their efforts since publication of the report has been on delivering the Roads Investment Plan.

Local Impact Returns

- 5.21 Local Impact Return questionnaires provide a template to assist auditors in making an assessment as to how the Council has responded to National Performance Reports from Audit Scotland. During the year the following Returns were submitted to Audit Scotland:

- Modernising the Planning System
- Scotland's Finances 2 – Addressing the Challenges
- Transport for Health & Social Care
- A Review of Community Health Partnerships

Waste Management

- 5.22 In January 2012 we undertook a review of the Council's procurement procedures and documentation of the waste management contract for which the preferred bidder was announced in September 2011.

- 5.23 The key findings from our work were:

- It was unclear whether key stakeholders within the Council were actively involved or merely informed of what was being included in the business case;
- The value of the tender agrees with requirements set in the Public Contracts Regulations 2006;
- Competitive dialogue was selected as the procurement approach, which is not unreasonable given the nature of the contract, however the implications for the Council and decision to use competitive dialogue as the procurement route were not clearly evidenced;
- Selection criteria and time limits were stated within the advert for tender;
- The criteria was detailed for both the Invitation to Tender (ITT) and Pre-Qualifying Questionnaire (PQQ);
- There is documentation that recorded when tenders were received which were in line with the time limits imposed by the closing date;
- We found evidence that post-tender clarifications were replied to and communicated to all participants;
- PQQ responses were reviewed by multiple parties based on predetermined methodology;
- One contractor initially failed the financial standing tests and was rejected at PQQ stage. Following advice from the Council's external advisers and reassessment of PQQ scoring the contractor passed the financial evaluation;
- Five parties progressed to the Invitation to Submit Outline Solution (ISOS) stage;
- Assessment of tenders resulted in two parties being Invitation to Submit Detailed Solution (ISDS) and Call for Final Tender;

- The tender evaluation was reviewed and approved by the CMT on 18 August 2011, in line with delegated authority;
- There was a lack of a complete audit trail maintained for the procurement process; and
- The length of contract chosen by the Council is set at the longest period suggested by tenderers.

5.24 In September 2012, officers sought approval from the Council's Executive Committee to cancel this procurement and notify the preferred bidder that the procurement will not be progressed.

Action Point 4

Local Area Network

5.25 As the Council's appointed auditor, we continue to be an active participant in the Local Area Network (LAN). The LAN comprises representatives of all of the main local government audit and inspection bodies. A shared risk assessment commenced in November 2011 to update the Assurance and Improvement Plan (AIP) for the Council which was first published in July 2010.

5.26 The following changes were made to the scrutiny plan:

- The Housing Benefits Performance Audit planned for 2011/12 will now take place in 2012/2013.
- Targeted scrutiny work by the Scottish Housing Regulator will take place in response to identified risks around aspects of homelessness, including lets.
- As reported at 5.18 above, there was a focused follow up audit to Audit Scotland's national report "Maintaining Scotland's roads: a follow up report" (published February 2011). This is not specific to the Council and has been reviewed across all Scottish Local Authorities.
- The proposed targeted Best Value audit work to consider the 'working' aspect of the 'working and learning' outcome area and member/officer working relationships in the council has been reviewed. The 'working' aspect of 'working and learning' has now been assessed as having no significant risk. Member/officer relationships however remain the subject of monitoring by LAN members. No planned scrutiny will take place over 2012/2013 and the LAN will continue to review these areas.
- There is no additional activity planned for 2013/14.

Performance Management

5.27 The council has established arrangements in place to monitor its performance. Reports on key plans and strategies as well as regular updates on progress with Connect and the Resource Plans published by each department are reported to the relevant committees. These reports are available on the Council and committees website.

5.28 Councillors are able to use the detailed information in these reports to meet their responsibility in terms of challenge and scrutiny. The Council also publish annual performance indicators.

5.29 The council has an electronic performance monitoring and reporting system (IMPROVe) which is used to track progress against the measures and targets set out in Connect, the Single Outcome Agreement and the plans published by each Resource every year. Reports drawn from IMPROVe are included in the quarterly updates to Committees.

Standards of Conduct

5.30 The Council's Code of Conduct for Employees was revised in September 2011 and has been developed by the Council following the adoption by the Convention of Scottish Local Authorities (Cosla) of the National Code of Conduct for Local Government Employees.

5.31 This Code sets out the minimum standards expected of all employees of South Lanarkshire Council. These standards are used as a benchmark of good practice by the Local Government Ombudsman where a complaint of maladministration has been made.

Appendices

Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	2.27	<p>Equal pay claims</p> <p>Due to the potential risk to the Council, Management should continue to actively manage any developments in respect of equal pay claims.</p> <p>This should include regular briefings to Members.</p>	<p>Management Response:</p> <p>Officers will provide ongoing monitoring and management of claims, and provide briefings to members as appropriate</p> <p>Responsible Officer:</p> <p>Head of Personnel, Finance and Corporate Resources</p> <p>Implementation Date:</p> <p>Ongoing</p>
2	2.30	<p>Revaluation reserve</p> <p>The Oracle Fixed Assets (OFA) system is not able to effectively process a range of transactions relating to property, plant and equipment revaluations. Reconciliations are undertaken on a periodic basis to keep track of the true value of the assets' revaluation reserve; however this work is often time consuming and an inefficient use of time.</p> <p>The Council is in the process of testing an update to the Oracle software to address these system issues in respect of revaluation reserves.</p> <p>This work should be completed to ensure the Council has a fit for purpose fixed asset module going forward.</p>	<p>Management Response:</p> <p>Oracle Fixed Asset issues are being addressed through the software upgrade currently underway. Initial testing are indicating that the main issues are likely to be resolved</p> <p>Responsible Officer:</p> <p>Head of Finance</p> <p>Implementation Date:</p> <p>March 2013</p>
3	4.19	<p>Welfare Reforms</p> <p>In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.</p> <p>The impact of these reforms should not be underestimated as they are likely to have far reaching direct and indirect implications for the Council.</p> <p>The Council should continue to develop its Welfare Reform action plan, through which the tasks required to successfully implement Welfare Reform can be planned, coordinated and monitored.</p>	<p>Management Response:</p> <p>The Welfare Reform action plan will continue to be developed and the actions progressed throughout the forthcoming period of welfare reform.</p> <p>Responsible Officer:</p> <p>Executive Director (Finance and Corporate Resources)</p> <p>Implementation Date:</p> <p>Throughout 2013/14</p>

	Paragraph Reference	Recommendation	Response
4	5.24	<p>Waste Management</p> <p>Management should develop an action plan to address the findings of our review of the waste management procedure arrangements. The action plan should address future contracts that are subject to EU procurement regulations.</p>	<p>Management Response:</p> <p>It should be noted that the Council has now cancelled this procurement and has notified the other party that the procurement will not be progressed.</p> <p>Officers are currently examining the options for future provision of waste management services and if required, a new contract will be tendered. A paper on options will be presented to Committee.</p> <p>An action plan is being developed to look at the issues arising from the auditors work, in respect of contracts subject to EU procurement regulations</p> <p>Responsible Officer:</p> <p>Executive Director (Community & Enterprise Resources) Executive Director (Finance and Corporate Resources)</p> <p>Implementation Date:</p> <p>March 2013</p>

Appendix 2 - Audit reports issued in 2011/12

Report Name	Report Date
External Audit Plan 2011/12	February 2012
Interim Management Letter 2011/12	May 2012
Follow up of Prior Year Recommendations during the 2011/12 Audit	May 2012
Maintaining Scotland's Roads – A Follow Up Report	August 2012
Financial Audit 2011/12 Risk and Audit Scrutiny Forum presentation	September 2012
Annual Report to Members and the Controller of Audit	October 2012

Appendix 3 – ISA 260 Communications to those charged with governance

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ Audit Planning document report to Risk and Audit Scrutiny forum 23 February 2012 and confirmed no member of audit team has any direct interest, financial or otherwise, in South Lanarkshire Council
Audit Approach and Scope	✓ Audit Planning document (reported to Risk and Audit Scrutiny forum 23 February 2012)
Materiality	✓ Audit planning document (reported to Risk and Audit Scrutiny forum 23 February 2012).
Form and Timing of Communications	✓ Audit Planning document (reported to Risk and Audit Scrutiny forum 23 February 2012)
Accounting Policies/Estimates/Disclosures	✓ Significant matters are included within this report
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	✓ Signed by the Director of Finance and Corporate Resources on 26 September 2012.
Other matters significant to the oversight of financial reporting process and material Uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ Discussed fraud arrangements with the Risk and Audit Scrutiny Forum and management throughout audit process.
Material Weaknesses in Internal Controls	✓ Internal Controls findings reported separately in our 'Interim Management Letter 2011/12' and 'Follow up of Prior Year recommendations 2011/12' reports.

In the event that, pursuant to a request which South Lanarkshire Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. South Lanarkshire Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and South Lanarkshire Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, South Lanarkshire Council discloses 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.

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