

West Dunbartonshire Council

Report to those charged with governance on the 2012/13 audit



Prepared for West Dunbartonshire Council
September 2013

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit & Performance Review Committee's consideration the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of West Dunbartonshire Council (the Council) and no responsibility to any third party is accepted.

Status of the Audit

3. Our work on the financial statements is now substantially complete. The more significant issues arising were discussed with finance officers and the Head of Finance and Resources at a meeting on 19 September 2013.
4. We received the unaudited financial statements, and comprehensive working papers, on 18 June 2013, in advance of the agreed timetable.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit & Performance Review Committee on 27 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we were not required to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

7. In presenting this report to the Audit & Performance Review Committee we seek confirmation from those charged with governance of any instances of fraud and other regularities that have

arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report on 25 September 2013 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease gross service expenditure and income by £1.8 million and £2.1 million respectively and increase the Council's general fund by £0.08 million. Net assets as recorded in the balance sheet have decreased by £1.0 million.
11. We therefore have no unadjusted misstatements to bring to your attention.
12. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

13. Measures to strengthen the internal control environment have been introduced to address weaknesses identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data. The Council has recorded these as exceptions in the Annual Governance Statement. As we do not consider these weaknesses to have a material impact on the fairness of the financial statements, they do not affect our audit opinion.
14. Our 2011/12 Report to those charged with governance highlighted areas where the quality of the Council's working papers could be improved. We are pleased to report that the Council took action to address this during 2012/13. The working papers provided to support the draft 2012/13 financial statements were of a high quality and were provided considerably earlier than the agreed deadline. This improved the efficiency of our audit and helped us complete it within the available timeframe.

Significant findings from the audit

15. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
16. **Reconciliations:** Our 2011/12 Report to Those Charged with Governance highlighted weaknesses in the process for reconciling key financial systems. Whilst we recognise that there has been considerable improvements in this area, our report on the Review of Governance Arrangements and Main Financial Systems issued in June 2013 highlighted that further improvements are required. During our audit of the Housing Revenue Account we noted a £54,078 unreconciled difference between the financial ledger and the housing rents system. Whilst this is not a material amount in the context of the total rent collected in year we note that this difference has fluctuated each year.

Resolution: A revised process will be implemented which ensures regular reconciliations of the HRA rental income systems.

17. **Capital Slippage:** Capital slippage in 2012/13 totalled £36.8 million against a budgeted capital programme of £81.2 million (45.3% slippage). Capital slippage has been an area of concern for a number of years with 23.8% in 2007/08, 32.4% in 2008/09, 22.7% in 2009/10, 19.2% in 2010/11 and 29.2% in 2011/12. The Council need to take appropriate action to ensure timely delivery of projects.

Resolution: The Council agreed a 10 year outline capital plan and specific plans for years to 2015/16 on 6 February 2013. The expectation is that these spend plans having been agreed in a phased manner will more accurately reflect the actual spend. In addition a revised monitoring process has commenced from 2013/14 which will allow more transparent reporting to Members and management of variances to the capital plan, allowing appropriate action to be taken.

18. **Cash Flow Statement:** Our analytical review highlighted a number of material fluctuations between 2011/12 and 2012/13 in the draft cash flow statement. For example, the initial draft statement showed cash inflows from 'Housing rents' increase from £15.3 million to £34.9 million, whilst 'Sale of goods and rendering of services' decreased from £58.6 million to £17.1 million. A number of presentational accounting issues were identified which have been corrected in the final draft of the accounts. Consideration should be given to reviewing the methodology used to compile the cash flow statement.

Resolution: The methodology used to generate the Cash Flow Statement will be revised.

19. **Non-Current Assets:** Demolitions costs incurred on three property assets were capitalised but not removed from the asset register when the sites were revalued.

Resolution: Management will implement improved processes to reduce the risk of this event reoccurring.

20. **Prior Year Expenditure and Income:** An accounting error during the reallocation of central support costs in 2011/12 resulted in both gross income and gross expenditure for Roads & Transportation Services being overstated by £4.274 million. Note that this means the 2011/12 net expenditure figure is not affected and therefore there is no impact on the Council's general fund. However, as the error in the gross values exceeds our materiality threshold it has been necessary to process a prior year adjustment in the 2012/13 financial statements.

Resolution: The process error which caused this to happen has been corrected in producing the 2012/13 accounts.

21. **Common Good:** In our 2011/12 annual audit report we highlighted that the Council had not performed an exercise to establish the existence, ownership and completeness of its heritable properties. The Council gave a commitment to consider the options available to clarify ownership of heritable properties between the Council and the Common Good. An extract from the Property Register has been created and populated with existing information and, when identified, Common Good assets will be added to the register. However we note that an examination of possible Common Good assets is still to be undertaken.

Resolution: Following on from last year's audit recommendation officers have considered the position in relation to the Common Good and the appropriate recording of assets within either the Council's or the Common Good Fund's asset register. Officers have generated an extract from the Property Register and populated with existing information and, when identified, Common Good assets will be added to the register.

Outstanding matters

22. Revised draft accounts: We require revised draft accounts to ensure that all of the changes to the figures and presentation and disclosure matters which have been communicated to the finance function have been actioned in line with our expectations.
23. ISA 580 Letter of representation: The signed letter of representation is required prior to the auditor's certification of the financial statements.

Acknowledgements

24. We would like to express our thanks to the staff of the Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of West Dunbartonshire Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of West Dunbartonshire Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Accounts, and the Non-domestic Rate Account, the Charitable Trust Funds, the Common Good Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and Resources and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance and Resources is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual

report and accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of West Dunbartonshire Council and its group and of the body as at 31 March 2013 and of the income and expenditure of the group and the body for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records
- I have not received all the information and explanations I require for my audit
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

David McConnell CPFA
Assistant Director of Audit
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4th Floor, South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

25 September 2013

APPENDIX B: Draft ISA 580 - Letter of Representation

David McConnell
Assistant Director
Audit Scotland
4th Floor South Suite
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear David,

West Dunbartonshire Council Annual Accounts 2012/13

1. This representation letter is provided in connection with your audit of the financial statements of West Dunbartonshire Council (the Council) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and its group, as at 31 March 2013 and income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of the Council for the year ended 31 March 2013.

General

3. I acknowledge my responsibility and that of the Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Explanatory Foreword and Remuneration Report, presents a balanced picture of the Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and in accordance with the requirements of Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Council and the Group for the year ended 31 March 2012/13.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. The Directors have assessed the Council's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Events Subsequent to the Balance Sheet Date

12. On 14 June 2013 the Valuation Joint Board approved the return of some of the reserves held at 31 March 2013 to contributing authorities. The Council's share of this was £0.079 million. The financial statements have been adjusted to take account of this. There have been no other material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2013, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2013 were owned by the Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2013.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2013 and of which the Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2013.

Yours sincerely

Stephen West
Head of Finance and Resources