

West Dunbartonshire Council

Report to those charged with governance on the 2011/12 audit



September 2012

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Summary

Introduction

1. International Standard on Auditing (ISA) 260 requires auditors to report certain 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. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - expected modifications to the audit report
 - management representations requested by us
 - unadjusted misstatements, other than those that are clearly trivial
 - material weaknesses in internal control identified during the audit
 - qualitative aspects of accounting practice and financial reporting, including accounting policies
 - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.
3. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2011/12 that require reporting under ISA 260. The contents should be brought to the attention of the Head of Finance and Resources, Chief Executive and Leader so that they can consider them before they sign the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of West Dunbartonshire Council (the Council) and no responsibility to any third party is accepted. In line with good practice, this report is also considered by the Audit Committee on 25 September 2012, before the audit is concluded.

Status of the Audit

4. Our work on the financial statements is now complete and the matters identified during the audit have been discussed with finance officers and the Head of Finance and Resources.

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

Committee on 15 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

Audit opinion & representations

6. 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 2012 (the proposed report is attached at [Appendix A](#)).
7. All errors identified during the audit have been corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.
8. As part of the completion of our audit we seek written assurances from the Head of Finance and Resources on aspects of the financial statements and judgements and estimates made.

Accounting and internal control systems

9. Weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data, these matters have been included as exceptions in the Statement on the System of Internal Financial Control.
10. **Change in Accounting Practice - Heritage Assets:** The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has been amended to require authorities to account for tangible heritage assets in accordance with FRS 30 Heritage Assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution of knowledge and culture. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits the value of heritage assets to be measured by an appropriate and relevant method. The Council have complied with the amended requirements of the Code and recognised assets to the value of £1.18m based on the assets fair value. The majority of these assets are works of art and are based on a valuation from Sothebys. As this is a change in accounting policy, the previous year's figures have been restated.

Matters arising

11. In our view, the following issues requires 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.
12. **Working Papers:** We provided a checklist of required working papers to support the financial statements and are pleased to say that these were received on time and were in line with the checklist. This helped us complete the audit within the available timeframe. However there are areas where the quality of the working papers could be improved. In particular we noted:
 - areas where there wasn't a clear link between the working papers and the figures in the draft financial statements

- audit evidence, in some cases, comprised only ledger extracts resulting in further requests for source documentation
- spreadsheets provided contained multiple references to other spreadsheets which were not always included within the working paper package.

Resolution: A revised process for development, control and ownership of working papers will be implemented for the 2012/13 final accounts process. This will ensure appropriate key officers are identified and responsible for creating and responding to auditors queries. The three areas specifically highlighted above will be taken account of when producing the working papers for future year end processes.

- 13. Reconciliations and Internal Control Processes:** Audit testing has highlighted weaknesses in the process for reconciling key financial systems or key accounting balances, for example:

- reconciliations are not always completed on a regular basis
- reconciliations are not routinely signed off
- review or authorisation is not always evident
- unreconciling errors were not always investigated.

Resolution: This issue was raised in the mid-year Governance Report which was recently reported to Audit and Performance Review Committee (August 2012). There are a number of actions which have been implemented to improve the issues identified above. In addition a central monitoring process will be created to allow easy oversight by management and sample checks will be carried out to ensure records are maintained appropriately.

- 14. Chief Executive Severance Package:** The former Chief Executive's 5 year fixed term contract expired on 31 October 2011. The terms of the contract included an entitlement to additional pension enhancements in accordance with the Council's Discretionary Policy and Strathclyde Pension Fund Regulations. The contractual entitlement resulted in an added years pension enhancement of 8 years 236 days. The financial implications for the first year include payment to Strathclyde Pension Fund in respect of "strain on the fund" capitalisation costs and compensatory added years cost of £263,573 and an additional lump sum payment of £37,860. Annual ongoing costs thereafter are £12,620 to Strathclyde Pension Fund. We are currently carrying out additional work in relation to the termination package. Our findings will be reported at a later stage in the audit.

Resolution: Council no longer has any employees engaged under such terms as noted above.

- 15. Identification of Bank Accounts:** The Council provided us with a list of the bank accounts held at 31 March 2012. We used this information to independently confirm bank balances within the financial statements. On review of the cash and cash equivalent balances, £3.131m was identified as cash in transit. £2.4m of this was in relation to housing rent payments and was held within a Co-op bank account which had not been on the initial list of bank accounts provided. We requested a bank confirmation letter from the Co-op and this identified a further bank account containing £240,000, which had not been disclosed within the accounts. This

raises concerns over the control of bank accounts within the Council. The funds within the Co-op bank account should have been transferred on a regular basis into the Council's main Clydesdale bank account where it would have been available for treasury management purposes to maximise returns.

Resolution: The accounts have been updated to reflect the additional £240,000 identified during the audit. A new system has commenced which will ensure that balances are transferred into the Council's main bank accounts on a weekly basis.

- 16. Non Current Assets:** Expenditure incurred on decontamination work on land at the site of St Peter the Apostle High School and at Kilbowie Road landfill site totalling £2.3m were capitalised as non current assets. Capitalisation should only be considered where costs increase the fair value of the asset. Revaluation of these assets was not carried out to ascertain their revised fair value. Following our examination and enquiry an impairment charge of £2.3m has been charged against these assets.

Resolution: The accounts have been adjusted to reflect the above issue and the value of the asset referred to has been reduced to the appropriate value. The process for valuing assets has been altered to ensure that revaluations are carried out as appropriate.

- 17. Prior Year Expenditure and Income:** An accounting error during the reallocation of central support costs in 2010/11 resulted in both gross income and gross expenditure being understated by £520,524. As this is below our materiality threshold, and as the 2010/11 net expenditure is not affected it has not been determined necessary to process a prior year adjustment in the 2011/12 financial statements.

Resolution: The accounts have been adjusted to reflect the above issue. This change affects only the previous year figures (2010/11).

Outstanding Information

- 18.** 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.

Acknowledgements

- 19.** 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: 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 2012 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 Account, and the Non-domestic Rate Income 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 2011/12 (the 2011/12 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 statement of 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 2011/12 Code of the state of the affairs of West Dunbartonshire Council and its group as at 31 March 2012 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 2011/12 Code; and
- 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; and
- 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; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2011/12 Code; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

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25 September 2012