



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Report to those charged with governance
Audit: Year ended 31 March 2009

09 September 2009

AUDIT

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- Executive summary
- Introduction
- Financial statements audit
- Other information read with the financial statements
- Appendices
 1. Action plan
 2. Independence confirmation
 3. Draft management representation letter

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only West Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to the Council, telephone 0131 527 6611, email grant.macrae@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Executive summary

The net impact of **audit adjustments** was to decrease the net surplus by £1.3million, reducing the carry forward of unearmarked reserves to £258,000.

We confirm our **independence** and ability to act as the Council's auditors.

We expect to issue **an unqualified audit opinion** on the financial statements of West Dunbartonshire Council and its group.

Our draft **management representation** letters require confirmation of the completeness, accuracy and existence of a number of key account captions.

We have read the **foreword by the executive director of corporate services** and conclude that it is consistent with the financial statements and our understanding of the organisation.

We considered the content of the **statement on the system of internal financial control** against our knowledge and expectations and concluded that it complies with the relevant guidance and is consistent with other information obtained as part of the audit.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

The Accounts Commission appointed KPMG LLP as auditors of West Dunbartonshire Council ("the Council") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2006-07 to 2010-11, inclusive. This document summarises our responsibilities as external auditors for the year ended 31 March 2009 and our approach to issues impacting the Council's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice* ("the *Code*"). Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code* also places a number of obligations on the Council.

Auditors' objectives in relation to the *Code* are to:

- provide an opinion whether the financial statements present a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ("the 2008 SORP") and whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
 - the Council's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; their financial position
 - the Council's arrangements to achieve Best Value
 - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

These areas are addressed in the annual audit report to the Council and the Accounts Commission. Once we have finalised our opinion, we will issue our annual audit report to close our audit work for 2008-09.

We outlined the framework under which we operate, under appointment by the Accounts Commission, in the audit plan overview discussed with the audit committee on 25 March 2009.

In accordance with ISA 260 *Communication of audit matters to those charged with governance*, this report summarises our work in relation to the financial statements and includes our consideration of:

- arrangements for **preparation of the financial statements**, including any unadjusted and adjusted differences arising during the audit; and
- **other information accompanying the financial statements**, including the foreword by the executive director of corporate services.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by staff during the course of our work.

Preparation of the financial statements

Introduction

Our audit plan overview described our audit approach. We reported on the earlier work we carried out in our interim management report, which considered the design and implementation of your key financial and organisation wide controls.

This report focuses on our final audit tasks and your financial statements production process. In the following table we comment on three key elements.

Element	Commentary
Completeness of unaudited financial statements	We received unaudited financial statements on 30 June 2009 on commencement of the related audit fieldwork. On initial inspection the unaudited financial statements were found to be complete, containing the core financial statements required by the 2008 SORP, allowing the financial statements to be made available for the statutory public inspection period.
Quality of supporting working papers	<p>We issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. The standard of documentation was generally good and there was evidence of accountability and ownership of working papers across the finance and ICT services.</p> <p>A detailed analysis of budget against actual outturn was not received until 13 August 2009, due to the identification of a material error in the unaudited financial statements. The original budgetary control analysis did not identify this error, resulting in a delay in receiving the detailed variance analysis.</p> <p style="text-align: right;">Recommendation 1</p>
Response to audit queries	Management provided good quality responses and there was a high standard of cooperation during the audit. Audit adjustments were agreed with the executive director of corporate services, the head of finance and ICT, and the manager of accounting on 3 September 2009.

We identified a number of recommendations relating to the preparation process for the accounts. We have included these in the action plan in appendix one.

Completion

The unaudited accounts will be presented to the audit and performance review committee on 23 September 2009 for review. Following this review, approval of the audited financial statements will be made by the executive director of corporate service as the Council's section 95 officer under the Local Government (Scotland) Act 1973.

Once the financial statements have been approved and we have received your representations as outlined below, we issue our audit opinion. Excepting for the commentary in this report, we do not have any other matters we wish to bring to your attention prior to the issuing of our opinion. In line with our audit planning memorandum, and the requirements of Audit Scotland, we will be submitting our annual audit report to the members of the Council and the Controller of Audit by 31 October 2009.

Audit differences

Adjusted audit differences

Some numerical and presentational amendments to the unaudited financial statements were agreed with management during the course of the audit. These were:

Overall impact	Adjustments identified	Impact on general fund balance £'000
Changes to the prime financial statements	An amount of grant income for teacher induction had been entered twice on the income and expenditure account resulting in an overstatement of income by £1.3 million.	1,319
	Credit notes of £0.8 million were incorrectly included within creditors resulting in the understatement of creditors and debtors.	None
	An adjustment of £3 million was required between expenditure and income in the income and expenditure account to ensure the release of the single status provision was consistent with the 2008 SORP.	None
Changes to the notes to the financial statements and presentational adjustments	Additional narrative to the balance sheet was included in respect of short term investments to explain the composition and the opportunity to extend the borrowing period or re-schedule the debt.	None
	Additional disclosures were required to ensure the presentation of provisions in note 24 was compliant with FRS 12.	None
	Amendments were made to the group balance sheet to reflect a transposition error. Amendments were also made in the note five to the group financial statements to ensure balances included reflected only the income and expenditure reserves.	None
	A number of recommendations were made and accepted by management to improve the notes to the financial statement.	None

Unadjusted audit differences

We are required by ISA 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. At the time of this report a potential unadjusted audit difference exists to the group financial statements. The impact on the group financial statements arises from consolidation of the results of Strathclyde Police Joint Board and Strathclyde Fire Joint Board (collectively the "Boards").

On adoption of FRS 17 'retirement benefits', legislation was enacted which requires that the FRS 17 calculated costs are reversed out from the general fund, and replaced with the actual contributions payable by the employer in the year. Additional pension schemes for the Boards were introduced 6 April 2006. On introduction of the new scheme, however, the legislation which allows the reversal of the FRS 17 calculated costs and their replacement with the actual contributions payable was not updated to include the new schemes. As a result, the FRS 17 calculated costs for the new schemes should be charged to the general fund from the inception of the scheme retrospectively.

At the time of preparation of this report, the charge to the general fund is yet to be fully quantified by the Boards. We understand, however, that the Board accounts are unlikely to be adjusted and so a technical accounting qualification is expected to arise on the Board accounts for non-compliance with a statutory requirement. The impact on the group financial statements of the Council will, however, be in proportion to the Council's share of the Boards net assets and liabilities. We will review the materiality of the potential audit difference when quantified by the Boards in terms of the impact on the group financial statements and any resulting action that may be required.

Opinions and representations

Audit opinion

We have completed our audit work on the financial statements and expect to issue an unqualified opinion following approval of the financial statements in September 2009, following satisfactory resolution of the matter in respect of police and fire pension regulations.

Confirmation of our independence

As part of the audit finalisation process, we are required to provide you with confirmation of our independence and ability to act as the Council's auditors. We have provided this in appendix two.

Draft management representation letter

You are required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions within the financial statements are legal and unaffected by fraud. We provided a draft of this representation letter to the executive director of corporate services and have included a copy in appendix three.

In the representation letters, we are requesting the confirmation from the executive director of corporate services as the Council's section 95 officer that:

- on the basis of the process established by the Council and its group and having made appropriate enquiries, I am satisfied that the assumptions underlying the valuation of tangible fixed assets are consistent with my knowledge of the Council and its group and are in accordance with the requirements of the 2008 SORP and that the selected basis for valuation of the Council's housing stock remains appropriate;
- the Council has consolidated all known associated entities in the its group income and expenditure account and its group balance sheet for the year ended 31 March 2009 in accordance with FRS 2 and FRS 9, as applied by the 2008 SORP. There are no other subsidiaries, associates or joint ventures of any significance. All appropriate entries have been accurately made to the 2008 SORP compliant Council financial statements and its subsidiaries, associates and joint ventures so as to comply with UK GAAP, as applied by the 2008 SORP;
- the Council has considered the impact of the current economic climate on the carrying value of its assets in accordance with FRS 11, and accounted appropriately for any adjustments required as a result of its consideration;
- the financial statements of the Council for the year ended 31 March 2009 include a provision in respect of unsettled equal pay liabilities and obligations under the single status agreement. This provision includes all known liabilities in relation to these obligations and there are no other known costs which have not been provided for in accordance with FRS 12;
- income and income receivable is completely and accurately disclosed in the financial statements;
- the actuarial assumptions made in respect of the pension liability in the Council's financial statements are reasonable; and
- except as disclosed in the financial statements of the Council and its group or notes to the financial statements of the Council and its group, there are no severance payments that have not been properly recorded in the accounting records underlying the financial statements of the Council and its group.

Areas for audit emphasis

We summarise here the work undertaken in respect of the specific areas of audit emphasis highlighted in our audit plan overview:

Areas of audit emphasis	
SORP 2008 / IFRS	<p>The 2008 SORP 2008 did not present major changes to the presentation of financial statements; however, the Council's financial statements were reviewed to ensure continued compliance with the SORP and other best practice disclosure.</p> <p>We reported to you in our audit plan the key transition dates to International Financial Reporting Standards, and we continue to update our understanding of the Council's actions in preparing for the transition to IFRS.</p>
FRS 17 / Pension costs	<p>We have reviewed and confirmed that required disclosures were made in the 2008-09 financial statements in respect of pensions as a result of amendments to FRS 17. We also reviewed assumptions used by actuaries to determine FRS 17 disclosure balances and to ensure that they are consistent with Council circumstances. We considered the impact of pension strain on the fund balances and it was confirmed by the Council's actuaries that this liability is included in the balance sheet as a past service cost or loss in curtailment.</p> <p>The impact on the group accounts of the failure to comply with the statutory requirements of the pension regulations in respect of police and fire joint boards remains outstanding at the time of the preparation of this report.</p>
Valuation of fixed assets	<p>The five year rolling programme of valuations resulted in a significant increase in the carrying value of council housing in 2008-09. Consideration has also been made of current economic climate and the resulting impact on the value of council housing. Valuations have also been conducted on categories of assets, in addition to the rolling programme, which management believe to be impacted by current market conditions, resulting in an impairment review of surplus assets. We have reviewed the category of assets impaired and the resulting impairment charge and found valuations to be consistent with our industry knowledge.</p> <p>The method of fixed asset valuation under IFRS is likely to have a large impact on the revaluation going forward, specifically the valuation of council housing, and the Council should consider this impact at an early stage. Recommendation 2</p>
Treasury management	<p>The Council is currently exploring fund options for the future of their short term borrowing of £25million, which is due to be re-scheduled in February 2010. A new treasury management strategy was approved during 2008-09 which increased the prudential indicator of total principal funds invested in a single institution to £10 million. We note that during 2008-09, the Council was in breach of their prudential indicator for maturity structures of fixed interest rate borrowing, and we report further on this within our annual audit report.</p>
Equal pay / single status provisions	<p>Substantial progress has been made in progressing the pay modernisation programme. A provision remains for appeals by employees in respect of single status outcomes. In 2007-08 £13 million was provided for in respect of single status. A substantial amount of the pay outs have been made during 2008-09, resulting in remaining provision of £3.4 million. We have reviewed the provision in detail and concluded that the amounts held in reserve in respect of this provision are reasonable.</p>
Debtors and bad debt provision	<p>We have considered the bad debt provision against amounts included in the financial statements and confirm the methodology used to calculate the provision is reasonable given our understanding of the debt recovery process. However, limited evidence was provided during the audit to demonstrate that adequate consideration had been given to the basis on which provision is made against aged debt listings or the impact of the current economic climate on the recoverability of debt had been assessed. Recommendation 3</p>

Foreword and statement of the system of internal financial control

We are required to consider other information published along with the financial statements. As the responsibilities section of the audit reports indicate, our consideration of this other information is in relation to the consistency of the foreword by the executive director of corporate services.

Foreword by executive director of corporate services

The financial statements of the Council have been prepared in line with the requirements of the SORP 2008. The foreword provides information on the basis under which the financial statements have been prepared. The foreword reports the main sources of income and expenditure, including information on the long-term borrowing strategy of the Council and the Council's ability to regulate its own capital spending limits.

We previously reported that the Council was in process of implementing its pay modernisation programmes, this has resulted in a review of the provision carried forward to 2009-10 in respect of appeals by employees resulting from pay modernisation.

Statement on the system of internal financial control

The chief executive is responsible for maintaining and reporting on the system of internal financial control. The 2008-09 statement provides details of the internal financial control environment, risk management and control frameworks established. The system of internal financial control is an ongoing process to identify and evaluate the probability and impact of risks that may prevent the Council from achieving its policies, aims and objectives.

The chief executive relies on the following support in achieving an effective system of internal financial control:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecasts;
- clearly defined capital expenditure guidelines;
- an effective internal audit service; and
- scrutiny by the audit and performance review committee of the Council.

The manager of audit, as required, has advised the accountable officer, in the 2008-09 annual assurance statement, that "*reasonable assurance can be placed on the system of internal financial control*". The statement of the system of internal financial control does, however, note that the audit of best value and community planning, carried out by Audit Scotland, and the subsequent follow-up inspections and reports, have identified a number of specific weaknesses which are being addressed as a priority by the Council.

The content of the statement is consistent with our understanding of the Council and its control environment.

Priority rating for recommendations

Grade one: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Grade two: Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.

Grade three: Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Amendments were required to the unaudited financial statements submitted for audit in June 2009. A detailed review of the financial statements, carried out by senior officers after the unaudited accounts were submitted to the Accounts Commission, identified that grant income totalling £1.3m which had been un-ringfenced in 2008-09 had been double counted in the unaudited financial statements. Failure to perform a timely and comprehensive senior officer review increases the likelihood of late adjustments to the financial statements.</p> <p>We recommend that senior management review the timetable for preparation of the unaudited accounts to incorporate a detailed review of the financial statements prior to submission for audit, considering in particular those areas which have scope for a significant impact on the financial statements.</p> <p><i>(Grade one)</i></p>	<p>A briefing note was immediately prepared and reported to the CMT detailing action to be taken to minimise the risk of a similar incident.</p> <p>The year end process timetable is currently under review to incorporate changes in processes and deadline dates to ensure additional time is allocated for review. This would be required for IFRS implementation also</p>	<p>Manager of Accounting 31 December 2009</p>
2	<p>The method of fixed asset valuation under IFRS is likely to be significantly different from the current accounting treatment under SORP 2008, particularly in respect of council housing where the method of valuation may be required to change from that currently used by the Council.</p> <p>Management should ensure that appropriate consideration on the treatment of fixed assets, including council housing, is made in advance of the opening balance sheet to ensure that the effect of the treatment of future capital expenditure is known and incorporated into the budget setting process.</p> <p><i>(Grade two)</i></p>	<p>The Council has a IFRS implementation group, with representatives from each department covering a number of disciplines (including valuers). It is actively working towards IFRS compliance with advice under the CIPFA/PWC partnership.</p> <p>Work is currently underway to complete the opening Balance sheet (2009) required by February 2010 for comparative purposes.</p>	<p>Manager of Accounting 26 February 2010</p>

Action plan (continued)

No.	Issue and recommendation	Management response	Officer and due date
3	<p>We have reviewed the recoverability of amounts owed to the Council, and the provision made in the financial statements for bad debts. While we are satisfied that overall adequate provision has been made for non-recoverability of debtor balances, management do not maintain detailed evidence to support their review of aged debt and their consideration of the recoverability of debt, particularly given the current economic climate.</p> <p>We recommend that a detailed review of outstanding debt is completed, to consider the recoverability and documentation of the basis for the resulting provision, with evidence of such review and action taken retained for audit purposes.</p> <p><i>(Grade three)</i></p>	<p>A formal minute will be taken at future review meetings to evidence issues considered and decisions taken</p> <p>The Council will continue to have focus on the management of aged debt</p>	<p>Manager of Exchequer</p> <p>31 May 2010</p>

Independence confirmation

Framework

Auditors appointed by Audit Scotland and the Accounts Commission are required to comply with its *Code of Audit Practice* when carrying out audit work. The *Code* requires that ... "Auditors should carry out their work with independence and objectivity. Their opinions, conclusions and recommendations should be, and should be seen to be, impartial. Auditors, or any associated firms, should not carry out any work for audited bodies if it would impair their independence or might lead to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code and the requirements of the Auditing Practices Board's Ethical Standard 1: *Integrity, Objectivity and Independence* ("Ethical Standards").

General procedures to safeguard independence

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners, directors and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ("the Manual"). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

All partners and staff must understand the personal and professional responsibilities they have towards complying with the policies set out in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Confirmation of independence

In relation to the audit of West Dunbartonshire Council for the financial year ended 31 March 2009, we confirm that there are no relationships between KPMG LLP and the entities, its directors and senior management that we consider may reasonably be thought to bear on the objectivity and independence of Grant Macrae and audit staff and which need to be disclosed to you. The audit fee for the financial year included our work in relation to corporate governance arrangements, best value, government grants and the financial statements audit. No fees were payable for non-audit services during the year.

This report is intended solely for the information of the audit and performance review committee and should not be used for any other purposes.

KPMG LLP

Draft management representation letter

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of West Dunbartonshire Council ("the Council") and its group, for the purpose of expressing an opinion as to whether these financial statements present fairly the financial position of West Dunbartonshire Council and its group as at 31 March 2009 and its income and expenditure for the year then ended, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice ("the 2008 SORP"). These financial statements comprise the Balance Sheet as at 31 March 2009, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Fund Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, Trust Funds and Common Good Fund, and the Group Accounts (comprising the group balance sheet as at 31 March 2009, the group income and expenditure account, group statement of total movements in reserves and group cash flow statement for the year then ended) for the year then ended, and a summary of significant accounting policies and other explanatory notes.

I acknowledge as executive director of corporate services of West Dunbartonshire Council my responsibilities under section 95 of the Local Government (Scotland) Act 1973 for preparing the financial statements of the Council, in accordance with the 2008 SORP, which give a true and fair view of the group and Council.

I also acknowledge as executive director of corporate services my responsibilities under section 95 of the Local Government (Scotland) Act 1973 for making accurate representations to you and for ensuring that there is no relevant audit information that you are unaware of.

I approve the financial statements.

I understand that auditing standards require you to obtain representations from directors and officers on matters that are material to your opinion. I understand that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

I have made appropriate inquiries of directors and officers of the Council with the relevant knowledge and experience. Accordingly, I confirm, to the best of my knowledge and belief, the following representations:

1. The financial statements, which have been prepared on a going concern basis, give a true and fair view in accordance with relevant legal and regulatory requirements and the 2008 SORP.
2. All the accounting records have been made available to you for the purpose of your audit, and the full effect of all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management, committee, and Council meetings and, when applicable summaries of actions of meetings held after the year end for which minutes have not yet been prepared, have been made available to you.

Draft management representation letter (continued)

3. In particular I confirm that:

- on the basis of the process established by the Council and its group and having made appropriate enquiries, I am satisfied that the assumptions underlying the valuation of tangible fixed assets are consistent with my knowledge of the Council and its group and are in accordance with the requirements of the 2008 SORP and that the selected basis for valuation of the Council's housing stock remains appropriate;
- the Council has consolidated all known associated entities in the its group income and expenditure account and its group balance sheet for the year ended 31 March 2009 in accordance with FRS 2 and FRS 9, as applied by the 2008 SORP. There are no other subsidiaries, associates or joint ventures of any significance. All appropriate entries have been accurately made to the 2008 SORP compliant Council financial statements and its subsidiaries, associates and joint ventures so as to comply with UK GAAP, as applied by the 2008 SORP;
- the Council has considered the impact of the current economic climate on the carrying value of its assets in accordance with FRS 11, and accounted appropriately for any adjustments required as a result of its consideration;
- income and income receivable is completely and accurately disclosed in the financial statements;
- the financial statements of the Council for the year ended 31 March 2009 include a provision in respect of unsettled equal pay liabilities and obligations under the single status agreement. This provision includes all known liabilities in relation to these obligations and there are no other known costs which have not been provided for in accordance with FRS 12; and
- except as disclosed in the financial statements of the Council and its group or notes to the financial statements of the Council and its group, there are no severance payments that have not been properly recorded in the accounting records underlying the financial statements of the Council and its group.

4. I am not aware of any known actual or possible non-compliance with laws and regulations that could have a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

5. I:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in the financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.
- acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management and those charged with governance, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.

Draft management representation letter (continued)

- have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
 - have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.
6. I confirm the completeness of the information provided to you regarding the identification of related parties and regarding transactions with such parties that are material to the financial statements. The identity of, and balances and transactions with, related parties have been properly recorded and when appropriate, adequately disclosed in the notes to the financial statements. I am not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 *Related party disclosures* or other requirements. Included in Appendix A to this letter are the definitions of both a related party and a related party transaction as I understand them and as defined in FRS 8.
7. Presentation and disclosure of the fair value measurements of material assets, liabilities and components of reserves are in accordance with UK Generally Accepted Accounting Practice as applied by the 2008 SORP. The amounts disclosed represent the Council's best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and such assumptions appropriately reflect the intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.
8. The Council has recorded or disclosed, as appropriate, all liabilities, both actual and contingent. No guarantees have been given to third parties.
9. The estimated financial effect of pending or threatened litigation and claims against the Council has been properly recorded and/or disclosed in the financial statements. Except as disclosed in the notes to the financial statements, I am not aware of any additional claims that have been or are expected to be received.
10. Except as disclosed in the financial statements or notes thereto there are no:
- (a) other gain or loss contingencies or other liabilities that are required to be recognised or disclosed in the financial statements, including liabilities or contingencies arising from environmental matters resulting from illegal or possibly illegal acts, or possible violations of human rights legislation; or
 - (b) other environmental matters that may have a material impact on the financial statements.
11. I confirm that:
- the accounts disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council and its group's ability to continue as a going concern as required to provide a true and fair view; and
 - any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Council and its group to continue as a going concern.

Draft management representation letter (continued)

12. On the basis of the process established by the Council and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business. I further confirm that:

- (a) all significant retirement benefits, including any arrangements that are statutory, contractual or implicit in the employer's actions; arise in the UK and the Republic of Ireland or overseas; are funded or unfunded; and are approved or unapproved, have been identified and properly accounted for; and
- (b) all settlements and curtailments have been identified and properly accounted for.

The Council's share of the Strathclyde Pension Fund has been accounted for in the financial statements of the Council. In addition, the Scottish Teachers' Superannuation Scheme has also been accounted for appropriately in the financial statements. There are no other schemes of any significance.

13. There have been no events subsequent to the balance sheet date which require adjustment of, or disclosure in, the accounts or notes thereto.

14. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the accounts.

Yours faithfully

Executive director of corporate services

Draft management representation letter (continued)

Appendix A to the Management Representation Letter of West Dunbartonshire Council

Definitions

A. Two or more parties are related parties when at any time during the financial period:

- (i) One party has either direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) one party has influence over the financial and operating policies of the other party to an extent that that other party might be inhibited from pursuing at all times its own separate interests; or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

B. For the avoidance of doubt, the following are related parties of the reporting entity:

- (i) its ultimate and intermediate parent undertakings, subsidiary undertakings, and fellow subsidiary undertakings;
- (ii) its associates and joint ventures;
- (iii) the investor or venturer in respect of which the reporting entity is an associate or a joint venture;
- (iv) directors^[1] of the reporting entity and the directors of its ultimate and intermediate parent undertakings; and
- (v) pension funds for the benefit of employees of the reporting entity or of any entity that is a related party of the reporting entity.

C. The following are presumed to be related parties of the reporting entity unless it can be demonstrated that neither party has influenced the financial and operating policies of the other in such a way as to inhibit the pursuit of separate interests:

- (i) the key management of the reporting entity and the key management of its parent undertaking or undertakings;
- (ii) a person owning or able to exercise control over 20 per cent or more of the voting rights of the reporting entity, whether directly or through nominees;
- (iii) each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity; and
- (iv) an entity managing or managed by the reporting entity under a management contract.

D. Additionally, because of their relationship with certain parties that are, or are presumed to be, related parties of the reporting entity, the following are also presumed to be related parties of the reporting entity:

- (i) members of the close family of any individual falling under parties mentioned above in A to C; and
- (ii) partnerships, companies, trusts or other entities in which any individual or member of the close family in a to C above has a controlling interest.

^[1] Directors include shadow directors, which are defined in companies legislation as persons in accordance with whose directions or instructions the directors of the company are accustomed to act.