



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Report to those charged with governance
Audit: Year ended 31 March 2010

20 September 2010

AUDIT

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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.

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.

Audit framework

This year was the fourth of our five-year appointment by the Accounts Commission as external auditors of West Dunbartonshire Council ("the Council"). This report provides our opinion and conclusions and highlights significant issues arising from our work.

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

- provide an opinion on 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 ("SORP 2009") 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; its financial position;
 - the Council's arrangements to achieve Best Value; and
 - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

We outlined the framework under which we operate, under appointment by the Accounts Commission, in the audit plan overview prepared for the audit and performance review committee on 10 February 2010 and considered by the committee on 7 April 2010.

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:

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

This report also includes confirmation of our independence.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your 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 reports, 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 28 June 2010 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 2009 SORP, allowing the financial statements to be made available for the statutory public inspection period.
Quality of supporting working papers	<p>On 1 April 2010 we issued a 'prepared by client' information request, setting out a list of required analyses and supporting documentation to support the financial statements.</p> <p>Management continue to provide good quality, detailed schedules which support the preparation of the annual financial statements. In most cases no lead schedules are provided by management and the reconciliation and cross referencing of information provided to financial statements and the trial balance is not always clear. We agreed with management that we will carry out a post audit review of our requirements with the manager of accountancy to address this issue and ensure the audit is carried out as efficiently as possible.</p> <p>We recommend that management continue to improve working papers to show a build up from the trial balance to the financial statement figures. This will have the dual benefit in 2010-11, the first under IFRS, in the Council having a full file supporting all figures with comparatives, which will reduce the amount of time explaining them.</p> <p style="text-align: right;">Recommendation one</p>
Response to audit queries	<p>As in previous years, management provided good quality responses to audit queries in a timely manner. There was a high standard of cooperation during the audit. The manager of accountancy and section head of treasury are relied heavily upon and are key to the completion of the current process. At times we found that we were directed between a number of members of staff in response to queries. Also, a number of key members of staff for the audit were on annual leave at the beginning of our fieldwork. We have agreed that management will ensure a detailed listing of annual leave we have in advance of our fieldwork.</p> <p>We recommend that management improve staffing availability during the audit process and that we are provided with known leave dates at least two weeks in advance of the agreed starting date of the audit. This will allow for detailed planning to ensure that the audit work is carried out when relevant staff are available.</p> <p style="text-align: right;">Recommendation two.</p> <p>Audit adjustments were agreed with the executive director of corporate services, the head of finance and ICT, and the manager of accountancy on 2 September 2010.</p>

Recommendations

During our final audit fieldwork the following other recommendations for improvement were identified.

Depreciation policy

Accounting standards require that the cost or revalued amount of an asset is depreciated as fairly as possible over the periods expected to benefit from their use. The Council's capital guidance manual states that no depreciation charged in the year that an asset is acquired or disposed of. Applying this policy an asset would not be fully depreciated over its useful economic life.

While we are content that there is no material impact on the Council's financial statements for the year, it is recommended that consideration is given to changing this policy to ensure it is consistent with FRS15 *tangible fixed assets*,

Recommendation three

Income recognition – grounds maintenance

Income is recognised in the ground maintenance trading operation, when work is physically completed based on signed job tickets. Due to the time lag between jobs being signed by operational staff and admin staff receiving the corresponding paperwork, some jobs have been completed in the current financial year but income has been recognised in the next financial year.

While we are satisfied that this error does not create a significant miss-statement for the financial statements, it is recommended that management put in place a process to ensure that income is correctly recognised in the appropriate year.

Recommendation four

The quality of information provided, on request, by the finance team was good, but we have noted some areas for improvement in efficiency regarding the information prepared in advance of our visit which support the financial statements.

As in prior years, we have reviewed and documented the systems and controls operating within the Council in order to suggest improvements or note inconsistencies. We believe strong systems and people are critical to success.

The Council is going through a period of change and there is pressure to achieve budget savings which impacts all aspects of support and operational activities. It is important that the finance department is well placed and continues to develop to support this to ensure that staff and management have the information required to make robust and timely decisions. We summarise below the results of our consideration of the status of arrangements required to support the Council's restructuring.

[Accurate and timely information](#)

Financial information is available regularly and is subject to scrutiny by central finance. The outturn on the general fund balance was reported to council together with the unaudited financial statements on 25 August 2010.

[Efficiency of underlying processes](#)

We have noted that there is a tendency to rely on one or two key individuals to oversee preparation of the financial statements, particularly in respect of technical aspects, with a fragmentation of responsibilities for preparing particular sections below these individuals.

[Quantity and quality of resources](#)

Our interactions with finance staff has been positive throughout our audit. We encountered a number of occasions when we were passed between a number of different individuals when attempting to understand specific transactions.

[Quality of accounting records](#)

The quality of the accounting records is generally good. In most cases no lead schedules are provided by management and the reconciliation and cross referencing of information provided to the financial statements and trial balance is not always clear.

[Ability to manage change](#)

The Council is undergoing significant change, particularly in respect of the restructuring of departments including accountancy. The high level of change at the Council continues to present a number of risks which it is important are closely monitored.

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:

Financial statements	Adjustments made	Value of adjustment (£'000)
Changes to the prime financial statements	Debtor and creditor balances with HMRC were treated gross in the financial statements and should have been netted off.	238
	There were a number of debit balances included within the creditors ledger which were correctly reclassified.	393
Changes to the notes to the financial statements	In the statement of movement on general fund balance the net FRS17 charge and cash pension contributions were not been correctly presented in accordance with the SORP.	-
	Capital grants received and not yet used to buy assets were disclosed, which should be disclosed within creditors, were disclosed within deferred capital grants.	1,288
	Note 13 to the accounts disclosed £5.8 million of specific government grant income within other income.	5,822
	The 2009 SORP changed the accounting for non-domestic rates to reflect that the Council is acting as agents for the Scottish Government. This required a change in accounting treatment, accounting policy and a prior year adjustment to process this change. This change was not reflected in the draft financial statements.	-
Presentational adjustments	We proposed other adjustments and improvements which were amended by management including: <ul style="list-style-type: none"> • increased disclosures on the accounting policy and financial note in respect of public private partnership provisions; and • a number of other minor presentational points. 	-
Group financial statements	We note a number of minor errors to note one of the groups accounts in relation to the disclosures for Strathclyde Partnership for Transport and the Strathclyde Concessionary Travel Scheme Joint Board.	-
Net impact	There was no net impact on the general fund balance in 2009-10.	-

Unadjusted audit differences

We are required by ISA 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences in respect of our audit.

Opinions and representations

Audit opinion

We have completed our audit work and, following their approval by the executive director of corporate services, we expect to issue an unqualified opinion on the Council's annual financial statements by 30 September 2010.

In forming our opinion we also consider whether the explanatory foreword, statement on the system of internal financial control and corporate governance statement were consistent with the financial statements. We have not identified any matters to bring to your attention.

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 separately to the executive director of corporate services.

In the representation letter, we are requesting specific 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 2009 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 2010 in accordance with FRS 2 and FRS 9, as applied by the 2009 SORP. There are no other subsidiaries, associates or joint ventures of any significance. All appropriate entries have been accurately made to the 2009 SORP compliant Council financial statements and its subsidiaries, associates and joint ventures so as to comply with UK GAAP, as applied by the 2009 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 2010 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.

Opinions and representations

Completion

Once the financial statements have been approved and we have received your representations as outlined above, we issue our audit opinions. Excepting for our 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.

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>We recommend that management continue to improve working papers to show a build up from the trial balance to the financial statement figures. This will have the dual benefit in 2010-11, the first under IFRS, in the council having a full file supporting all figures with comparatives, which will reduce the amount of time explaining them.</p> <p><i>(Grade three)</i></p>	Agree to review and develop working papers in general and update for further information required by auditors	<p>Manager of Accounting</p> <p>31 December 2010</p>
2	<p>We recommend that management improve staffing availability during the audit process and that we are provided with known leave dates at least two weeks in advance of the agreed starting date of the audit. This will allow for detailed planning to ensure that the audit work is carried out when relevant staff are available.</p> <p><i>(Grade three)</i></p>	Agree to review and improve.	<p>Manager of Accounting</p> <p>31 May 2011</p>
3	<p>Accounting standards require that the cost or revalued amount of an asset is depreciated as fairly as possible over the periods expected to benefit from their use. The Council's capital guidance manual states that no depreciation charged in the year that an asset is acquired or disposed of. Applying this policy an asset would not be fully depreciated over its useful economic life.</p> <p>It is recommended that consideration is given to changing this policy to ensure it is consistent with FRS15 <i>tangible fixed assets</i>,</p> <p><i>(Grade three)</i></p>	Agree to review and amend as necessary.	<p>Manager of Accounting</p> <p>31 January 2011</p>
4	<p>Income is recognised in the ground maintenance trading operation, when work is physically completed based on signed job tickets. Due to the time lag between jobs being signed by operational staff and admin staff receiving the corresponding paperwork, some jobs have been completed in the current financial year but income has been recognised in the next financial year.</p> <p>While we are satisfied that this error does not create a significant miss-statement for the financial statements, it is recommended that management put in place a process to ensure that income is correctly recognised in the appropriate year.</p> <p><i>(Grade two)</i></p>	Agree to review and amend current processes to ensure all income is accounted for in the year.	<p>Manager of Resources (HEED)</p> <p>31 March 2011</p>

Independence confirmation

Framework

Auditors appointed by the Accounts Commission are required to comply with Audit Scotland's *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 2010, 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, use of resources and the financial statements audit. There were no fees payable for non-audit services during the year.

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