

**INFRASTRUCTURE,
GOVERNMENT & HEALTHCARE**

West Dunbartonshire Council

Audit Planning Memorandum

11 December 2006





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Notice: About this report

This overview has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code') and *Statement of Responsibilities of Auditors and Audited Bodies*.

This report is for the benefit of only West Dunbartonshire Council and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

Nothing in this report constitutes 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.

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Introduction

Under the powers conferred upon the Accounts Commission (“the Commission”) under the Local Government (Scotland) Act 1973, KPMG LLP has been appointed auditors of the Council. The period of appointment is 2006-07 to 2010-11, inclusive. This document introduces our responsibilities as external auditors of West Dunbartonshire Council (“the Council”) in respect of the year ending 31 March 2007, the first year of our five-year appointment, and summarises the KPMG audit approach.

Our audit is carried out in accordance with our statutory responsibilities under the Local Government (Scotland) Act 1973 and in accordance with the international standards on auditing (UK and Ireland) issued by the Auditing Practices Council (“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. Auditors’ objectives in relation to the *Code* and the relevant section of this plan are provided in Figure 1.

Figure 1: auditors’ objectives in relation to the Code

Key area	Auditors’ objective
Financial statements	Provide an opinion on, to the extent required by the relevant authorities, the Council’s financial statements in accordance with the standards and guidance issued by the APB.
Corporate governance arrangements	Review and report on, to the extent required by relevant legislation and the requirements of the <i>Code</i> , the Council’s corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the Council’s financial position.
Performance audit	Review and report on, to the extent required by relevant legislation and requirements of the <i>Code</i> , aspects of the Council’s arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

Source: Audit Scotland (July 2001)

Audit Scotland has issued a revised draft *Code*, replacing the 2001 *Code*. The revised *Code* applies to the financial year ending 31 March 2007 and comments on the revised draft *Code* are invited by 31 January 2007. We will have regard to the revised *Code* during our 2006-07 audit. Audit Scotland has also issued a statement of responsibilities of auditors and audited bodies. This briefly summarises where the responsibilities of auditors begin and end and what is expected of the Council. Attention is drawn to this document.



Client Services Team

The audit team provide a combination of consistency and experience of the Council and the wider local authority and public sector. Figure 2 provides contacts details and responsibility for each of the key team members.

Figure 2: key team members

Team member	Role and responsibility	Contact details
Grant Macrae <i>Director</i>	The audit team will be headed by Grant Macrae as engagement director. Grant is responsible for liaison with senior management and the audit committee and the overall delivery of the audit products including signing the audit certificate on the financial statements	Tel: 0131 527 6611 grant.macrae@kpmg.co.uk
Keith Macpherson <i>Manager</i>	Keith will hold responsibility for managing the day to day delivery of the audit. This comprises the audit of the financial statements, our corporate governance and performance audit work and grant certification.	Tel: 0141 300 5806 keith.macpherson@kpmg.co.uk
Duncan Black <i>Assistant manager</i>	Duncan will lead the audit team during our fieldwork. Duncan will be the main point of contact when the team is on site at the Council.	Tel: 0141 300 5566 duncan.black@kpmg.co.uk



Our audit approach

KPMG's approach is based on quality – of the methodologies we apply, of our technical knowledge and, perhaps most importantly, of the way in which we interact with you. We constantly review our way of working to make sure that not only is it compliant but delivers you the added value you are seeking.

You will rightly demand an audit of the highest quality. Whilst audit methodologies may be comparable, the clear differentiator is frequently the level of industry knowledge and understanding the team brings with it. At KPMG, we work hard to ensure we keep up with developments in the sector. While we won't ever pretend we know your business better than you do, our appreciation of the wider issues you face in a rapidly changing sector will inform our approach to planning our work and help you manage your risks.

We share our clients' objectives of transparency and rigour in financial reporting. Each of our professionals is committed to delivering reliable, independent audits.

This commitment to maintaining audit quality means that we constantly review our approach so that our audit complies with changing regulations and professional standards. Evidence of our commitment is clear: KPMG has been an early adopter of many of the rules developed to rebuild confidence in financial reporting. The four-phase KPMG Audit Methodology (KAM) is our robust audit methodology that facilitates enhanced audit quality. It meets our goal of delivering quality, independent, rigorous audits.

Key features of our audit approach include:

- a strong emphasis on risk, allowing us to identify and pre-empt emerging issues not reflected in your accounting records;
- an audit aligned to your strategies;
- close communication with management at each stage of the audit process to help reduce the likelihood of unpleasant surprises; and
- KPMG's commitment to continuous improvement.

Every aspect of KAM will be focused on an examination of West Dunbartonshire Council's financial statements, including the group accounts: What risks can affect financial statements? What audit procedures address these risks? Where is the greatest risk for misstatement? How effective are internal controls at mitigating these risks?

Our ability to deliver a quality audit depends on our team developing a deep understanding of your Council processes, accounting policies, internal controls

including internal audit arrangements, and financial reporting issues so that we can effectively tailor our approach to develop one that is appropriate for the Council. In developing this understanding, we will draw on Audit Scotland’s Priorities and Risks Framework and will also use this to assess the risks relevant to our audit. We will also have regard to ‘*The audit of Best Value and community planning*’ undertaken by Audit Scotland in respect of West Dunbartonshire Council during 2005-06.

The following chart shows key activities performed in each phase of a KPMG audit:

PHASE	ACTIVITIES
Planning	<ul style="list-style-type: none"> • Perform risk assessment procedures and identify risks • Determine audit strategy • Determine planned audit approach
Control	<ul style="list-style-type: none"> • Understand accounting and reporting activities • Evaluate design and implementation of selected controls • Test operating effectiveness of selected controls • Assess control risk and risk of significant misstatement
Substantiation	<ul style="list-style-type: none"> • Plan substantive procedures • Perform substantive procedures • Consider if audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Perform completion procedures • Perform overall evaluation • Form an audit opinion

We will use our understanding of the Council to determine which transactions are significant to the financial statements. Our audit approach requires that we identify significant classes of transaction, estimates, other account balances and disclosures. We will develop individual audit objectives relating to each of these items. We will identify and test the controls and focus our work on the areas most likely to give rise to a material misstatement in the financial statements. Using this focus, and consistent with the *Code*, we will review and test the design and implementation (and, if necessary) the operation of your key financial controls to ensure that we are satisfied that the financial and information technology (“IT”) control environment is robust.

The remaining substantive audit work enables us to conclude on our audit objectives. This work is directed towards the high risk judgemental areas

identified during our planning and control evaluation work and will also cover presentational matters within the financial statements.

We expect, depending on the results of our assessment of control risk, to undertake business and IT process/control work prior to the year end allowing us to identify, define and resolve issues early in the process.

Internal audit

Our audit approach seeks, wherever possible, to place reliance on the work completed by internal audit. We will, therefore, work with the Council's internal auditors to minimise duplication of effort and ensure maximum benefit from the combined audit resource.

As part of the initial planning we have reviewed the 2006-07 internal audit plan and identified the following areas as those on which, subject to formal evaluation of internal arrangements, we specifically plan to place reliance:

- main accounting system;
- housing benefits;
- treasury management;
- tendering and contracting;
- debtors; and
- creditors.

We have discussed the progress against the plan with the internal auditors. We will perform a detailed file review of this work in advance of our financial statements audit in order to obtain the necessary evidence to enable us to place formal reliance upon internal audit.

Materiality

The determination of the materiality for planning purposes, at the financial statement level, is ultimately a judgment of the engagement leader, and takes into consideration both quantitative and qualitative factors. The quantitative level of materiality is ordinarily determined by reference to revenue / resources from continuing operations. The amount is determined based on judgment. It is not a standard mathematical calculation. In making this determination the engagement leader considers the absolute level of materiality for planning purposes as well as its relationship to other amounts. The engagement leader also considers the effect of qualitative factors. Such factors are based on our understanding of the Council's activities gained during the strategic analysis phase of the audit workflow.

Materiality for planning purposes represents a quantitative determination of the magnitude of an omission or misstatement of accounting information that, in

the light of surrounding circumstances, makes it probable that the decisions of users of the financial statements would have been changed or influenced by the omission or misstatement. It may be relevant to revise the measure of materiality for planning purposes during the audit if there is a significant change in Council activities after the initial determination.

KPMG LLP uses a base calculation for materiality which is normally derived from the total revenue base. This approach is in line with ICAEW guidance. Our base materiality to be used for planning purposes in 2006-07 is £1.7 million.

Under International Auditing Standard 260 'communication of audit matters to those charged with governance' we are required to report any uncorrected audit differences to the audit committee for its consideration, unless the differences are clearly trivial (in this case less than £85,000) for the Council. Our final opinion on the financial statements and the impact of any outstanding audit differences will depend on the materiality of any remaining uncorrected differences following discussion with management. We have calculated separate bases of materiality for the Council's significant trading operations and the housing revenue account.

Classes of transaction, estimates, other account balances and disclosures

In addition to our assessment of materiality, we use our understanding of the Council to determine which classes of transactions are significant to the Council and group financial statements. Our audit approach requires that we identify classes of transaction, estimates, other account balances and disclosures. We will develop individual audit objectives relating to each of these items, identifying and testing the controls over each item where appropriate.

Based on the Council's financial statements in 2005-06, we have summarised our audit approach to classes of transactions, estimates, other account balances and disclosures on pages 17 to 19.

Prevention and detection of fraud and irregularity

We will have regard to International Standards on Auditing 240 (revised): *The Auditors' responsibility to consider fraud in the audit of financial statements* when completing our work in this area. Under this ISA, the responsibilities of the auditors in relation to fraud is to detect material misstatement due to fraud. The ISA requires that we complete some additional procedures throughout the audit process, including:

- making enquiries of management and those charged with governance about how they manage the risk of fraud and their knowledge of actual or suspected fraud;

- evaluating the Council's programmes and controls to prevent, and detect fraud;
- addressing the risks of fraudulent revenue recognition and of management override of controls through journal entries, biased estimates and significant unusual transactions;
- perform other procedures, as considered necessary, to identify fraud risks, including certain minimal procedures;
- documentation and communication requirements for the procedures undertaken and the results of these procedures; and
- obtaining representations from elected members and the Council's senior staff related to fraud and audit differences through the management representation letter.

During 2006-07, Audit Scotland provided additional requirements of local authorities in respect of the National Fraud Initiative ("NFI"). We will have regard to the requirements placed on local authorities and auditors arising from the NFI. Our planned audit response to the NFI is outlined on page 12.

Communication and reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and the Council. As a result, accounting and control issues can be identified and reported to allow you to manage them throughout the year.

Our goal is to establish and maintain trust between KPMG and West Dunbartonshire Council management – our aim is to help you achieve your objectives but also provide sufficient independent challenge so that all issues affecting the financial statements and controls are openly discussed and resolved.

The *Code* requires us to communicate to Council management (through the audit committee), and to the Controller of Audit, findings arising as a result of the audit work completed. Reports to management will be submitted throughout the course of the year, with draft reports discussed and agreed with management and action plans developed to include the recommendations, target dates for implementation and the member of staff responsible for implementation. Details of our planned outputs are shown on page 14.

Our standards

The standards that we will work to when performing the audit, along side the key input required from the Council to ensure that we are able to meet these standards, is summarised in Appendix III. This expectation of your support represents the assumption on which our audit fee has been based. If these assumptions are inaccurate then additional work may be required to complete the audit, this work will be charged to the Council in line with Audit Scotland fee arrangements.

Continuous improvement

The team will hold open and constructive debriefing sessions after the audit to identify lessons to be learned and areas for improvement. Our goal is to deliver continuous improvement and provide you with an assurance that KPMG is focused on your needs. We want to know if we have lived up to our promises. This feedback is important to us and of value to you.



Transition

We aim to make the transition to KPMG as seamless as possible. We have taken care to assemble a team for West Dunbartonshire Council with relevant experience in Local Government audit and whose members have worked together in the past in similar engagements to be able to move quickly up the learning curve. Our years of experience serving similar organisations, together with our risk-based audit approach and tailored audit plan, will effect a smooth and efficient transition to KPMG.

It is natural for you to have questions and uncertainties about changing auditors, however, we are convinced that the experience that resides within our firm and that of Grant Macrae and the rest of the team can provide you with the comfort of a smooth handover. We have already begun to formulate our transition plan based on our previous experience of transitioning similar organisations and the understanding of the Council and its operations. We have also held a formal handover meeting with the Council's previous external auditors to minimise any disruption during the transition process.

The key elements of our audit transition plan are illustrated below.

Step 1	Step 2	Step 3	Step 4
Conduct interviews with key members of management	Understand IT systems	Prepare preliminary risk assessment	Confirm understanding of key processes and identification of key controls
Hold a formal handover meeting with the previous external auditors	Identify significant classes of transactions	Agree a protocol for issue identification and resolution with management	Identify and evaluate control environment
Gain an understanding of the Council's corporate culture	Identify non-routine transactions and potential significant accounting matters	Schedule further meetings with management to confirm significant risks	Confirm strategic and operational risks with management
Establish key reporting dates	Review interim management accounts		Design detailed audit programmes
Obtaining an understanding of significant accounting policies	Understand internal audit arrangements		

KPMG has a well-established record for smooth audit transitions. Our transition plan builds upon the knowledge we have already gained and focuses on rapid familiarisation with your business and issues. We will use the transition as an opportunity to review your reporting processes and controls and, wherever possible, contribute constructive recommendations as to how these might be improved upon.



Significant risk areas

During our planning process we have identified a number of specific financial statement risks which may impact the Council's strategic objectives, the financial statements and subsequently our audit opinion. This includes consideration of the national and organisational priorities and risks set out in the Audit Scotland priorities and risks framework planning tool, and a number of existing and emerging issues impacting the way in which the Council provides services to West Dunbartonshire.

We summarise in Figure 3 these risks and the intended audit response. This includes the potential impact on the financial statements and audit opinion in the event that the risk materialises during 2006-07.

Figure 3: Significant risk and audit focus areas

Risk area	Audit response
<p>Single status agreement and equal pay claims</p> <p>During 2006-07, the Council is required to implement the single status agreement and address any new equal pay claims arising in the year. Implementation of the single status agreement is unlikely to be cost neutral. The timing and nature of decisions will determine the appropriate accounting treatment. Whilst the Council provided for all known equal pay claims in 2005-06, there is also a risk that additional claims are not provided for in the year and that appropriate accounting treatment is not followed in respect of settlements and payments.</p>	<p>We will review the Council's valuation of single status and equal pay provisions, including the accounting treatment for any payments and settlements in the year.</p>
<p>Delivery and valuation of the capital programme</p> <p>The Council operates under CIPFA's Prudential Code for Capital Finance in Local Authorities, under which the Council is required to set prudential indicators and monitor its compliance with these during the year. Monitoring and delivery of the Council's capital programme is a key factor in ensuring compliance with these prudential indicators.</p> <p>FRS 15 and the SORP also set specific criteria for capitalising elements of expenditure. There is a risk that if the appropriate criteria for capital expenditure are not considered as part of a review of the capital programme, then the Council could overstate its capital expenditure.</p> <p>In addition, the Council is due to revalue a proportion of its operational properties as part of its rolling 5-year programme of fixed asset revaluations. There is a risk that the valuations are not completed in accordance with the requirements of the SORP or cover all land and building assets owned by the council. There is a further risk that valuations are not properly accounted for once received.</p>	<p>Our audit work will focus on arrangements at the Council to monitor and deliver on the capital programme within the requirements set by the Prudential Code.</p> <p>Contracting and tendering controls will be considered to ensure compliance with best practice. We will also review for completeness, existence and accuracy property maintenance costs as well as fixed asset additions, to ensure that expenditure is appropriately classified between capital and revenue streams and that the Council has complied with relevant regulations attached to associated capital funding sources.</p> <p>Finally, we will assess the valuation methodology applied to the Council's land and buildings to ensure compliance with FRS 15 and RICS guidance. Confirmations from the Council's valuers will be obtained to ensure these requirements have been met.</p>

Risk area	Audit response
<p>Significant trading accounts</p> <p>Significant trading operations require to break even on a rolling three year period. The Council failed to comply with this requirement in 2005-06 within the catering trading operation. There is a risk that the Council's significant trading operations fail to break even for the rolling three year period ending 31 March 2007, resulting in an emphasis of matter paragraph within the audit certificate.</p>	<p>The completeness, existence and accuracy of trading account income and expenditure will be a key area of focus during the audit to ensure that the results for 2006-07 are accurately reported. We will also review the trading operations service plans to ensure that they can meet the financial objectives set.</p>
<p>Implementation of new financial ledger</p> <p>The Council implemented a new financial ledger system on 1 April 2006. There is a risk that financial information is not accurately transferred from the previous system and that lack of training leads to errors in operating the new system. There is also a risk that the new system fails to interface accurately with existing systems and that differences arise between the new financial ledger system and feeder systems.</p>	<p>We will perform a detailed systems and controls review of the implementation, maintenance and operation of the new ledger system, including the general IT control environment. We will also review the accuracy of opening balances in the new system with reference to the 2004-05 closing balances. We will utilise our IT specialists as appropriate, and have regard to the work planned by internal audit in this area.</p>
<p>Financial reporting</p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom 2006 ("the SORP") comes into effect for preparation of the 2006-07 financial statements. The revised SORP requires a number of significant changes to the financial statements, including prior year comparative figures. There is a risk that the Council does not prepare its financial statements in accordance with the revised SORP.</p> <p>The Council is also required to prepare group accounts. Whilst 2006-07 is the second year of group accounting at the Council a risk still exists that consolidation entries are not accurately prepared.</p>	<p>We will discuss with management the Council's arrangements for ensuring compliance with the revised SORP at an early stage in the audit, including arrangements for group accounting. We will also perform a detailed analysis of the financial statements against the disclosure requirements of the revised SORP to ensure full compliance.</p>
<p>FRS 17: retirement benefits ("FRS 17")</p> <p>The Council has reported a significant deficit in its share of the Strathclyde Pension Scheme (£86.603 million as at 31 March 2006). There is increasing pressure on employers to meet deficits in pension schemes and there is a risk that the Council is not able to meet these additional obligations in future years, especially in light other known financial pressures (such as the efficient government initiative and the anticipated increases in power and fuel costs).</p>	<p>As part of our 2006-07 audit, we will review management's plans for meeting future financial obligations in relation to its pension deficit.</p>

Risk area**Audit response****Common good and trust funds**

The Council has a number of Trust Funds disclosed within its financial statements. All registered charities are required to submit charities SORP financial statements in accordance with OSCR regulations. There is a risk that the Council does not comply with these regulations in respect of any of their Trust Funds which are registered with OSCR. There is also a possibility that additional financial statement disclosures are required in the 2006-07 Council financial statements.

We will keep management informed as to any requirement for compliance with the charities SORP in preparing the 2006-07 financial statements, including Trust Funds. Should further disclosure be required, within KPMG we are able to draw on a number of specialists accredited with accounting under the charities SORP.

Priorities and risks framework

Audit Scotland introduced its priorities and risks framework ("PRF") in 2005-06 as a planning tool to help ensure that audit work is focussed and takes account of both local authority national priorities and risks. The PRF was updated for 2006-07 and published on 29 November 2006 covering the following key issues:

Governance and performance management	Efficient government and efficient use of resources
Supporting political governance	Financial planning
Community planning and partnership working	Workforce management
Performance management	Procuring and managing assets

The PRF is therefore structured into two over-arching themes of governance and performance management and efficient government and efficient use of resources which are largely strategic in focus and assist in explaining how the underlying themes inter-relate.

We have taken consideration of these key issues in identifying the significant risk and audit focus areas identified previously. We will further discharge our duties in respect of the PRF through meetings with key officers in January 2007 which will further our understanding of the Council's business processes.

Corporate governance framework

Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The *Code* requires auditors to review aspects of the corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control;
- the prevention and detection of fraud and irregularity;
- standards of conduct, and the prevention and detection of corruption; and

- its financial position.

We will also review for accuracy the Council's statement on internal control / corporate governance statement.

National fraud initiative

During 2006-07 local authorities in Scotland should be providing a number of mandatory datasets as part of the NFI in Scotland 2006-07 exercise in accordance with Audit Scotland's letter on 30 March 2006. In November 2006, Audit Scotland outlined the responsibilities on local authorities to demonstrate full and effective participation in the NFI and advised that participation will be subject to monitoring by external auditors and Audit Scotland.

It is the Council's responsibility to follow up the data matches promptly and prepare progress reports on their investigations. Our role is to monitor the Council's approach, ensuring that the matches are followed up efficiently and effectively. Until the number of data matches is known, it is not possible to quantify the resource implications that this exercise will have. What is important is that the Council establishes a systematic, prioritised approach to the investigations and puts in place a mechanism for monitoring and reporting progress. The exercise is likely to generate public interest.

Best Value

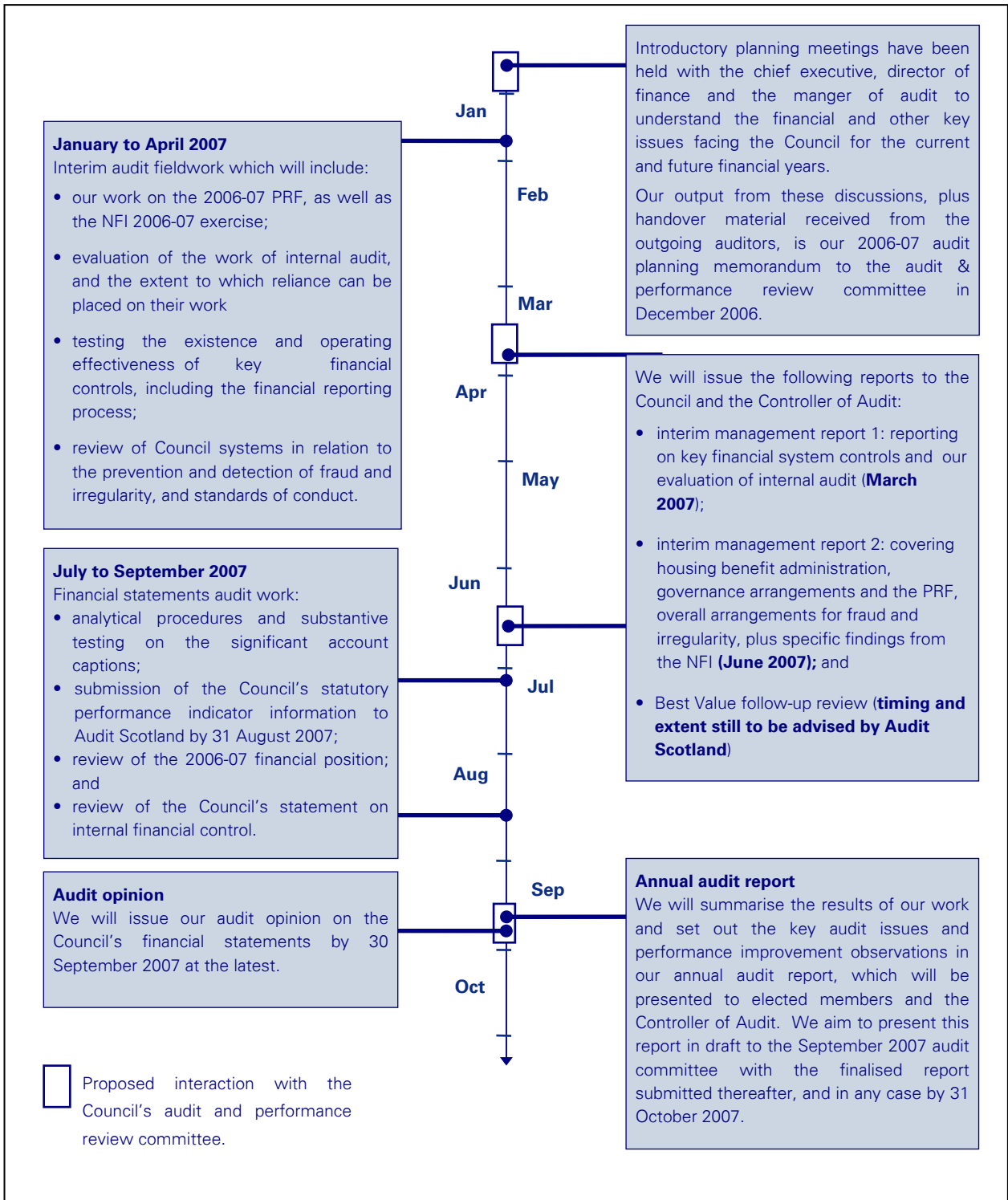
The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and community planning. As a result, the Accounts Commission introduced new arrangements for the audit of Best Value. A Best Value and community planning audit of the Council was carried out by Audit Scotland during 2006. Whilst the publication of the finalised Best Value report is pending, subject to the outcome of the Accounts Commission hearing, the Council will be required to submit an improvement plan to the Accounts Commission to address areas of concern.

At this point the extent to which we will be involved in assessing the progress made by the Council in addressing the report's key findings has yet to be clarified by Audit Scotland. We will discuss this further with management as soon as we have been advised. Our fee proposal may then require amendment.

Timetable

As part of our planning process, we have met with senior management to discuss and agree an outline audit timetable. The Council is required to submit draft financial statements by the statutory deadline of 30 June 2007. Figure 4 provides an outline plan based on our experience of similar clients and assumes a submission deadline of 30 September 2007 (at the latest) for the audited 2006-07 financial statements.

Figure 4: outline audit timetable





Fees and assumptions

Fees

We will complete our audit of the Council under the 'fee for the audit' concept. Audit Scotland requires that the agreed fee for the audit is set within the limits of the indicative fee range, unless otherwise approved by them. Placement within the range depends on the level of work we consider necessary to perform and is influenced by the number and level of risks facing the Council. The total fee is constructed by applying required additions and reductions to the indicative fee to establish an agreed fee. To this the Audit Scotland fixed central charge is added. Together, these two elements form the total charges for the 2006-07 audit.

Our fees for the year ending 31 March 2007, which are stated inclusive of VAT, have been discussed with the head of finance, and are analysed as follows:

	£
Indicative audit fee	192,200
Variances due to:	
<ul style="list-style-type: none"> • Additional governance work due to findings of Best Value audit 	11,595
<ul style="list-style-type: none"> • First year full evaluation of internal audit 	2,350
<ul style="list-style-type: none"> • IT controls work relating to new accounting system 	3,525
<ul style="list-style-type: none"> • Additional fraud work associated with NFI scheme 	1,750
Total (excluding Audit Scotland fixed charge element)	211,420

At the time of preparation of this document, Audit Scotland have not finalised their fixed charges for the year, and so we are unable to include the full fee information.

Arrangements for additional audit work

Where we are required to undertake work that was not provided for within the initial audit plan, the agreed fee may be revised, within the indicative range, in conjunction with management. Within the statement of responsibilities of auditors and audited bodies it is made clear that the indicative fees for the audit do not specifically provide for us to undertake work in relation to PPP/PFI.

The Council has embarked on the West Dunbartonshire Schools PPP project. An initial comment on value for money was provided by Audit Scotland in January 2006. We understand that a further audit opinion will be required on

the final proposed scheme and we will enter into discussions with the Council's PPP team at the earliest moment. A further fee for this work will be agreed with management at the appropriate time.

The above fee arrangements also exclude potential additional audit work in respect of Best Value follow up. To the extent that this can be covered by our additional governance work, we will discharge our duties Best Value reporting duties within this fee. Should Audit Scotland request, however, that we complete specific work in relation to follow-up of the Council's progress in implementing recommendations and findings from the finalised Best Value report, then we may be required to charge additional fees beyond the indicative fee range. Again we will discuss the extent of these additional fees in advance of commencing the work.

Financial statements production

We rely on Council management to produce an adequate set of draft financial statements and to devote appropriate resources to the financial statements closure process. For 2006-07 the Accounts Commission will require receipt of audited financial statements by 30 September 2006. We will agree the detailed timetable to allow us to meet this deadline with the finance department later in the year.

"Prepared by client" request

In order to operate a cost effective audit service, we also ask the finance department to prepare schedules to support the figures included in the financial statements. We will provide this request to the finance department during March 2007. We do this for clarity between the finance department and ourselves so that both of us understand our different responsibilities in the preparation of the financial statements and audit process.

During our audit we plan to make use of Computer Assisted Audit Techniques ("CAATs"). CAATs enable efficiencies to be made in the audit process, reducing the workload of the audit team and Council officers, whilst enhancing the quality of the audit evidence obtained. In order to use CAATs effectively during the audit, we will liaise with management at the planning stage to agree on suitable electronic outputs that are compatible with our CAATs software.

Our estimate of the fee for the financial statement audit is based upon receipt of all of the information requested in this document before the audit starts otherwise our work will be unable to progress in a timely and cost effective manner.



Auditing the financial statements

Classes of transaction, estimates, other account balances and disclosures

Our audit approach to classes of transactions, estimates, other account balances and disclosures is outlined in Figure 5 below. The potential impact on the financial statements is indicated according to the following assertions.

C - completeness E – existence A – accuracy
 V - valuation O – obligation P – presentation

Figure 5: our planned audit approach to classes of transactions, estimates, other account balances and disclosures

Classes of transaction, estimates, other account balances and disclosures	Financial statement impact	Reliance on internal audit	Reliance on external expert	Planned audit approach		
				Control testing	Substantive analytical review	Substantive tests of detail
Government grant income	CEAO	✓	-	-	✓	✓
Service level income	CEAO	-	-	✓	✓	-
Trading account income	CEAO	-	-	✓	✓	-
Council tax income	CEAO	-	-	✓	✓	-
Non-domestic rates income	CEAO	-	-	✓	✓	-
Housing rents income	CEAO	-	-	✓	✓	-
Pay expenditure						
• Wages and salaries (including social security and pension costs)	CEAO	-	-	✓	✓	✓
• Redundancy / severance costs	CEA	-	-	-	-	✓
• Higher paid staff remuneration	CEA	-	-	-	-	✓
Other general fund expenditure						
• service expenditure	CEAO	✓	-	✓	✓	-
• trading account expenditure	CEAO	✓	-	✓	✓	-
• joint board expenditure	CEAO	-	-	-	✓	✓

Classes of transaction, estimates, other account balances and disclosures	Financial statement impact	Reliance on internal audit	Reliance on external expert	Planned audit approach		
				Control testing	Substantive analytical review	Substantive tests of detail
Housing revenue account expenditure:						
• repairs and maintenance	CEAO	-	-	✓	✓	-
• supervision and management	CEAO	-	-	✓	✓	-
• other costs	CEAO	-	-	✓	✓	-
Fixed assets:						
• additions and disposals	CEAVO	-	✓	✓	✓	✓
• depreciation charge	CA	-	-	-	✓	✓
• notional interest	CA	-	-	-	✓	-
• revaluation and impairment (including related narrative disclosure)	CV	-	✓	✓	-	✓
Debtors due after more than one year, including refinancing account	CEAVO	-	-	-	✓	✓
Short term investments	CEAO	✓	-	✓	✓	-
Stock	CEAVO	✓	-	✓	✓	-
Debtors:						
• local taxation	CEAVO	-	-	✓	✓	-
• housing rents	CEAVO	-	-	✓	✓	-
• government grants	CEAVO	-	-	-	✓	✓
• trade debtors	CEAVO	✓	-	✓	✓	✓
• prepayments, accrued income and other debtors	CEAVO	-	-	-	✓	✓
Cash at bank and in hand	CEAO	✓	-	✓	✓	✓
Creditors due within one year:						
• trade creditors	CEAO	✓	-	✓	✓	✓
• loan interest	CEAO	✓	-	-	✓	✓
• local taxation	CEAO	-	-	✓	✓	-
• accruals	CEAO	-	-	-	✓	✓
• payroll and taxes creditors	CEAO	-	-	-	✓	✓

Classes of transaction, estimates, other account balances and disclosures	Financial statement impact	Reliance on internal audit	Reliance on external expert	Planned audit approach		
				Control testing	Substantive analytical review	Substantive tests of detail
• deferred income and other creditors	CEAO	-	-	-	✓	✓
Borrowing	CEAO	✓	-	✓	✓	✓
Provisions for liabilities and charges	CEAVO	-	-	-	✓	✓
Deferred government grants	CEAO	-	-	-	✓	✓
Fund balances and reserves	A	-	-	-	-	✓
Capital commitments	CAO	-	-	-	-	✓
Pension asset / liability	CEAVO	-	✓	-	-	✓
Cash flow statement and statement of movement in reserves	A	-	-	-	-	✓
Common good / trust funds	CEAVO	-	-	-	✓	✓
Other financial statement disclosures	CEA	-	-	-	✓	✓
• publicity expenditure	CEA	-	-	-	✓	✓
• members allowances	CEA	-	-	-	✓	✓
• operating and finance leases						
Overall presentation of financial statements in accordance with ACOP	P	-	-	-	✓	✓
Group accounts	P	-	✓	-	✓	✓



Appendix I: About KPMG

KPMG has over 600 partners and 9,000 staff in 22 offices throughout the UK. More information about KPMG is available from www.kpmg.co.uk.

In the past year KPMG has won over 28 awards which acknowledge excellence in delivery of work, including 'Big Four Auditor of the Year' in the Real Finance/CBI Finance Directors' Excellence Awards for the second year in a row and 'Accountancy Firm of the Year' at the European Venture Capital Journal Awards. KPMG has also been named as the UK's 'Best Big Company to Work For' by the Sunday Times and were the only one of the Big Four to appear in the 'Financial Times 50 Best Workplaces' survey. Our values are given in appendix 3.

KPMG is also a leading provider of services to Audit Scotland. For the five years commencing 2006-07 our appointments include West and East Dunbartonshire Councils, and Strathclyde Partnership for Transport, plus a number of NHS, central government and further education bodies. Previously, KPMG were appointed auditors of South Ayrshire Council, Clackmannanshire Council and East Renfrewshire Council

KPMG's values

We have developed a set of seven values – The KPMG Way – which underpin our way of working with our clients and one another. Our values bind us together both nationally and globally and help to ensure that our clients experience consistency in everything we do, regardless of where we do it.

Value	Benefit
We lead by example	Our culture is founded on individuals being accountable for their actions. This fosters strong leadership, resulting in a confidence among our client base that any issues will be addressed and resolved swiftly
We work together	Teamwork is built into our working patterns at KPMG – giving you the benefit of a cohesive approach with no breakdowns in communications
We respect the individual	We encourage our staff to grow and develop within the firm which aids staff retention and hence team continuity
We seek the facts and provide insight	We listen to our clients and challenge their thinking, building strong relationships based on trust
We are open and honest in our communications	We will always flag issues early – meaning no surprises and a transparency of dialogue
We are committed to our communities	We encourage involvement in local community – an understanding which gives us insight into your diverse community of stakeholders
Above all, we act with integrity	We guard our professional reputation jealously and are independent in our judgements



Appendix II: Quality

Grant Macrae is ultimately responsible for the quality of our audit service to you and the quality of our audit opinion. Work is underpinned by a range of control measures and independent reviews to provide comfort that our work is of a consistent quality:

- Across the Council team knowledge – each member of our team briefed so they have a thorough understanding of West Dunbartonshire Council your business.
- Detailed audit plan – Grant Macrae plays a key role in setting the audit scope and strategy while the detailed planning and analysis prior to fieldwork is supervised by Keith Macpherson.
- Working paper review – all working papers will be reviewed by a more senior member of the team and those relating to critical audit objectives will be reviewed by Grant Macrae.
- Annual debrief – at the end of each audit cycle, our team will hold debriefing meetings with you to discuss the audit, identify areas for improvement and agree priorities for the following year.
- Quality control – our national quality control review programme means that a random sample of audit engagements is scrutinised each year for quality and compliance. The work of every audit partner and director is reviewed at least once every three years.
- Audit Scotland quality review – our work is subject to random quality control reviews by Audit Scotland on a periodic basis.
- Peer review – the work performed by KPMG is subject to regular peer reviews by the Audit Inspection Unit of the UK Financial Reporting Council, the new independent regulator.

Grant Macrae will also seek feedback from your management team to ensure that, if there are any issues, they're quickly identified and appropriate action is taken to resolve them.



Appendix III: Standards & Expectations

How we will conduct ourselves

Listening to your concerns	✓	We will be proactive in developing relationships with staff throughout the Council where our audit work requires their input.
	✓	We will ensure that all letters and telephone messages will receive a timely response, either by the individual concerned or Grant Macrae or Keith MacPherson
	✓	Grant Macrae or Keith MacPherson will attend audit committee meetings, as appropriate, and ensure that other KPMG staff that have contributed to our work at the Council are invited as appropriate.
Working together	✓	We will ensure that the director of finance and other key member of staff are kept informed of the progress of our audit work throughout the year.
	✓	We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.
Cooperating within the Council	✓	We will continue to co-ordinate our work with that of internal audit and ensure that we provide, where appropriate proactive commentary to the finance department on issues that affect the Council's financial statements in line with the <i>Code</i> .
	✓	We will always respond promptly to requests for comment on aspects of the Council's operations, where appropriate and in line with the <i>Code</i> .

Our expectation of your support

Audit plan	✓	Brief our staff on key issues affecting the Council.
	✓	Review and agree the draft plan.
Interim audit	✓	Facilitate the completion of internal audit work (particularly on the core financial systems) in good time for our visits.
	✓	Respond to and agree our draft reports within two weeks of receipt of the draft report.
Financial statement audit	✓	Ensure that a full draft of the financial statements are available at least a week prior to the agreed start date of our audit, and that only agreed adjustments are processed following receipt of this draft.
	✓	Ensure that key officers are available for the duration of our audit.
	✓	Produce the documents listed within our prepared by client request by the agreed start date of our audit.
Final report	✓	Discuss and agree our draft final report in good time for the audit committee.
Other work	✓	Ensure that all action plans are agreed and followed up in due course.
	✓	Agree a key Council contact as a focal point for audit work.
	✓	Discuss and review our findings so that action plans can be fully completed and implemented.
	✓	Respond promptly to request for documents to assist us with our work.

