

West Lothian Council

Report to those charged with governance on the 2008/09 audit

September 2009



 AUDIT SCOTLAND

Contents

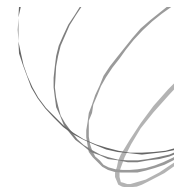
Key Issues	1	Appendix A	5
Introduction	1	Proposed Independent Auditor's	
Status of the audit	2	Report	5
Matters to be reported to those charged with governance	2		



Key Issues

Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff
 - the overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made
 - expected modifications to the audit report
 - management representations requested by us
 - unadjusted misstatements
 - material weaknesses in internal control identified during the audit
 - views about the qualitative aspects of accounting practices and financial reporting, including accounting policies
 - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out for the Council's consideration the relevant matters arising from the audit of West Lothian Council's financial statements for 2008/09 that require reporting under ISA 260. The contents should be brought to the attention of the Head of Finance, Chief Executive and Leader so that they can consider them before they sign the relevant pages of the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of West Lothian Council and no responsibility to any third party is accepted. In line with good practice, this report is also considered by the Audit Committee on 22 September 2009, before the audit is concluded.



Status of the audit

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

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management on 30 January 2009 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

Audit opinion & representations

6. Our anticipated auditor's report (appendix A) is unqualified.
7. The accounts have not been adjusted to correct one financial misstatement, which is detailed at paragraph 11 below. This misstatement is not material to the financial statements.
8. We have received the formal representations from the Head of Finance that we require for our audit.

Accounting and internal control systems

9. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Matters arising

10. In our view, the following issues require to be brought to your attention regarding the appropriateness of the council's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:
11. **Fire Board pension costs:** The accounts have not been adjusted to correct one financial misstatement. In relation to the Fire Board's employer's pension costs, legislation generally requires that the difference between retirement benefit costs as calculated under FRS 17 and the board's actual employer's pension contributions are charged to the Pensions Reserve. There is currently no



legislation that permits this in respect of the New Fire Pension Scheme which commenced from 6 April 2006. The Fire Board's financial statements reflect the legislative position. Therefore, for the New Fire Scheme, the full FRS 17 costs since scheme inception have been charged against the General Fund balance. For Lothian and Borders Fire and Rescue Board, FRS 17 based pension costs in respect of the new fire fighters pension scheme since 2006 are £1.708m. The impact of charging these costs is to reduce the unaudited General Fund balance of £3.656m to £1.948m. As this is below the level of earmarked reserve required to meet deferred pension commutation liabilities, there is a need to create a debtor for additional requisition of £222,376 from constituent councils in respect of 2008/09. West Lothian Council's share of the debtor is £34,891. The council's accounts have not been adjusted to include this debtor because it is fully anticipated that the Scottish Government will amend the omission in the Local Government Pension Reserve Fund (Scotland) Regulation 2003, which has given rise to these accounting adjustments, before the end of 2009/10. In the meantime, it is necessary to create this additional requisition debtor in the Fire Board accounts, pending amendment to the 2003 Regulation

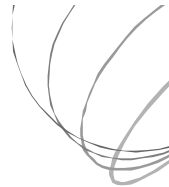
Resolution: The Scottish Government intend to amend the regulation to include the new pension schemes so that this is not an issue in the future.

12. **Equal pay compensation costs:** We have received detailed papers from legal services showing that actual and potential claims in relation to equal pay legislation have been reviewed and the amount recognised as a provision (£1.117 million) is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date. While there remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach. The Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package.

Resolution: Provision is being made in the accounts and the Head of Finance has provided formal representation that this is the best estimate of the likely liability for equal pay claims

13. **Group accounts:** The group accounts have been prepared using the figures from the unaudited accounts for group organisations. For us to conclude that these figures provide a true and fair view of the financial position of the group, the audited accounts are to be provided to us prior to the audit being concluded.

Resolution: The Head of Finance is to provide the audited accounts

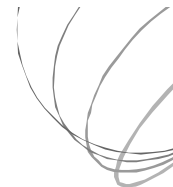


Acknowledgements

14. We would like to express our thanks to the staff of West Lothian Council for their help and assistance during the audit of this year's financial statements which has enabled the appointed auditor to certify the statements by the Controller of Audit's target date.



September 2009



Appendix A

Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of West Lothian Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Loans Fund Revenue Account, the Charitable Trusts Statement, the Common Good Account and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

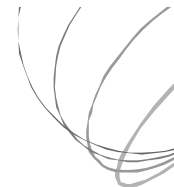
My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, Statement of Assurance on Corporate Governance and the Reports from Services. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of West Lothian Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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30 September 2009