

# Audit and Inspection Plan

**Wiltshire County Council**

**Audit 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Introduction

- 1 This plan has been developed by the Relationship Manager and the Appointed Auditor, KPMG LLP ('KPMG'). It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to ensure integration and co-ordination with the work of other inspectorates as appropriate.
- 3 This is KPMG's first year of audit following our appointment as your external auditors by the Audit Commission. We are working closely with the District Auditor, as your out-going auditor, to ensure a managed handover process takes place which minimises any disruption on the Council.
- 4 The audit planning process for 2007/08, including the risk assessment, is an ongoing process. It will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the Statement on Internal Control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's 'Statement of responsibilities of auditors and of audited bodies' sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and we undertake our audit work in the context of these responsibilities.

## CPA and Inspection

- 9 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 10 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as '4 star'.
- 11 We have applied the principles set out in the CPA framework, CPA – the Harder Test, recognising the key strengths and areas for improvement in the Council's performance.
- 12 Strengths in the Council's performance include:
  - Services are generally of a high quality. The Council has a higher proportion than average (42 per cent) of selected services, such as waste recycling, that are performing in the best 25 per cent for all county councils.
  - The Council provides good value for money with performance consistently above minimum requirements.
  - The Council's plans to deliver its priorities are well developed and robust. These focus on achieving the targets set under each priority. The plans link in well with its corporate and medium term financial plans and support its performance management, financial planning, accommodation and HR strategies.
- 13 Areas for improvement in the Council's performance include:
  - Public satisfaction with the Council and many of its services has declined significantly since 2003/04.
  - Some departments are delivering excellent work to ethnic minority and disabled citizens as well as monitoring and measuring improvement. However this good work is not replicated across all departments.

On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

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**Table 1      Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.

Inspection activity	Reason/impact
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

## Work under the Code of Audit Practice carried out by the Appointed Auditor

### Financial statements

- 14 KPMG will audit the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.
- 15 We will issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year then ended.
- 16 We are also required to review whether the Statement on Internal Control (SIC) has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if it is misleading or inconsistent with our knowledge of the Council.

### Use of resources

#### Value for money conclusion

- 17 The Code requires KPMG to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. In arriving at our conclusion we will consider a standard set of criteria issued by the Audit Commission.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.
- 21 The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.



- 22** The Audit Commission has decided that where there is a rotation of appointed auditor in 2007/08, this work should be completed by the out-going auditor. This is because the results and conclusions inform the 2006/07 VFM conclusion, for which the out-going auditor is responsible. The 2007 use of resources assessment will therefore be undertaken by the District Auditor.
- 23** The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion. The District Auditor will arrive at a score of 1 to 4, based on underlying key lines of enquiry (KLOEs), for each of the following themes.

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**Table 2      Use of resources Key Lines of Enquiry**

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements.</li> <li>• External reporting.</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy.</li> <li>• Budget monitoring.</li> <li>• Asset management.</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources.</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management.</li> <li>• System of internal control.</li> <li>• Probity and propriety.</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money.</li> <li>• Managing and improving value for money.</li> </ul>

- 24** The District Auditor will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.

## Data quality

- 25** The Audit Commission has specified that auditors will be required to undertake audit work in relation to the quality of data underpinning performance information. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
  - Stage 2 - completeness check; and

## **10 Audit and Inspection Plan | Work under the Code of Audit Practice carried out by the Appointed Auditor**

- Stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26** The work at stage 1 will link to the review of the Council's arrangements to secure data quality as required for the value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.
- 27** As with the work on use of resources, this work will be completed by the District Auditor as the Council's out-going auditor. The fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on the assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

### **Best Value Performance Plan**

- 28** We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.
- 29** For 2007, this work will also be conducted by the District Auditor.

### **Pension fund**

- 30** The Audit Commission is recommending changes to the audit of Local Government Pension Schemes, whereby pension funds:
- are established as stand alone bodies;
  - prepare a separate statement of accounts and an annual report, in accordance with the pension fund SORP; and
  - are audited as separate audit engagements.
- 31** If introduced, this would involve undertaking a separate audit of the pension fund accounts and annual report in accordance with the Auditing Practices Board's Practice Note 15: the audit of occupational pension schemes in the United Kingdom (PN15).
- 32** We understand these changes will not apply to the 2007/08 audit, but may be implemented from 2008/09. The audit plan therefore assumes that the pension scheme continues to form part of the financial statements of the Council. We will discuss arrangements with the Council as these become clearer.

## Assessing risks

- 33** KPMG is committed to targeting our work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 34** Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our knowledge of the Council (supported by the handover discussions with the District Auditor, as your out-going auditor, and the Relationship Manager);
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and on-going audit work;
  - the Council's strategic risk register;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other regulators' work, where relevant.

## Financial statements

- 35** We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after the District Auditor has completed his 2006/07 audit. The findings from this work will be a key factor influencing 2007/08 accounts work.
- 36** As a minimum, KPMG will need to consider how the Council addresses the financial reporting changes introduced by the 2007 Statement of Recommended Practice (SORP). Areas impacting on the Council's financial statements may include:
- the requirement to establish a UK GAAP-compliant revaluation reserve, replacing the fixed asset restatement account, and a new capital adjustment account - with a particular challenge being the need to calculate the opening balance from historic information;
  - changes in the accounting arrangements for financial instruments, including the introduction of the accounting standards FRS25 and FRS26;
  - new arrangements to account for Local Area Agreement grant funding; and
  - the new dedicated school grants disclosure requirements, adopted as an amendment to the Accounts & Audit Regulations 2006.

- 37 KPMG will hold a post-audit de-briefing session with the Council's finance staff to consider the findings from the 2006/07 audit and to undertake a more detailed risk assessment. We will use these discussions to consider the Council's closedown process and timetable, and to agree the working paper requirements for the final accounts audit.
- 38 We will also develop and agree a joint working agreement with internal audit, within which we will set out the scope for, and our approach to, relying on the work of internal audit.

## Use of resources

- 39 For each of the significant risks identified in relation to our use of resources work, KPMG consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 40 Our initial risk assessment for use of resources work is provided in Appendix 1. At this stage, the key risks we have identified as impacting on our audit relate to the following areas:
- partnerships;
  - local government reorganisation;
  - business continuity and IT;
  - managing resources, policy & risk;
  - medium term financial strategy;
  - equalities; and
  - fraud and corruption arrangements.
- 41 We will consider these risks as part of our standard audit of the Council's use of resources arrangements, in order to inform our 2007/08 VFM conclusion (to be issued by September 2008).
- 42 Appendix 1 highlights the areas where we will undertake specific use of resources projects, again to inform our VFM conclusion. These are:
- a diagnostic project to consider the developing governance, financial management and performance management arrangements for the Local Area Agreement;
  - a review of the Council's business continuity arrangements, with a particular emphasis on IT; and
  - a follow up of progress against the Audit Commission's 'Equalities & Diversity' review.
- 43 We will also consider and seek to rely upon Internal Audit's work on the Council's Business Management project.
- 44 We will update our risk assessment as necessary through our continuous planning process as the year progresses.

## **Work specified by the Audit Commission**

### **Whole of government accounts (WGA)**

- 45 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office, which is proportionate to risk.

### **National Fraud Initiative (NFI)**

- 46 The Council participates in the NFI which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out nationally by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).
- 47 The Council receives data on the NFI 'matches' from the Audit Commission. The Council is responsible for considering and investigating these matches. As your Appointed Auditor, KPMG will consider how the Council responds to the outcome of the NFI.

## Voluntary improvement work

- 48 The Council has not commissioned any Voluntary improvement work at this stage. However, discussions between KPMG and the Council have identified some areas where such work may be of value. We would be happy to discuss these areas further with the Council.

## Certification of grant claims and returns

- 49** The thresholds for certification of claims and returns have increased from 1 April 2007, and we will certify the Council's 2007/08 claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
  - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
  - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.
- 50** The above change is likely to have an impact on the level of audit fees payable for the certification of grant claims in 2007/08. Once the District Auditor has completed the certification process for 2006/07, KPMG will provide the Council with a clearer indication of the expected fee for 2007/08.

## The audit and inspection fee

- 51** The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 52** The total indicative fee for audit work included in this audit and inspection plan for 2007/08 is £226,612, which compares with the fee of £219,379 for 2006/07.
- 53** The total fee for inspection work included in this audit and inspection plan for 2007/08 is £14,750, which compares with the actual fee of £12,672 for 2006/07.
- 54** Further details are provided in Appendix 2, which includes:
- a breakdown of the fee;
  - specific audit risk factors;
  - the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers;
  - specific actions Wiltshire County Council could take to reduce its future audit and inspection fees; and
  - the process for agreeing any changes to the fee.
- 55** The fee includes all work identified in this plan unless specifically excluded.
- 56** In addition, KPMG will provide an estimate of the fees for the certification of claims and returns for 2007/08 following the completion of the 2006/07 certification work by the District Auditor.
- 57** As indicated earlier in this plan, the audit planning process will continue as the year progresses. It is possible that there will be some changes to our planned work and hence to the indicative fee quoted above. Any changes to the fee will be agreed with you.
- 58** KPMG will discuss and agree with the Council the fee for any voluntary improvement work it commissions. Any such fees will be invoiced separately from the audit fee.



## Other information

### The audit and inspection team

- 59 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

**Table 3      The team**

Name	Contact details	Responsibilities
Melanie Watson Relationship Manager	<a href="mailto:m-watson@audit-commission.gov.uk">m-watson@audit-commission.gov.uk</a> 0844 798 8819 07747 762208	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Chris Wilson Appointed Auditor (KPMG LLP)	<a href="mailto:christopher.wilson@kpmg.co.uk">christopher.wilson@kpmg.co.uk</a> 0118 964 2238	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and VFM conclusion, and liaison with the Chief Executive and the audit committee.
Darren Gilbert Senior Manager (KPMG LLP)	<a href="mailto:darren.gilbert@kpmg.co.uk">darren.gilbert@kpmg.co.uk</a> 029 2046 8205	Manages and co-ordinates the different elements of the audit. Key point of contact for the Chief Financial Officer and Assistant Director, Performance & Review.
Margaret Maxwell Local Performance Lead (Audit Commission)	m-maxwell@audit-commission.gov.uk 07876 217694	Responsible for the delivery of elements of the inspection work including the direction of travel assessment.

### Independence and objectivity

- 60 KPMG complies with the ethical standards issued by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity, as summarised at Appendix 3.
- 61 Table 4 summarises two issues which we would like to bring to the Council's attention.

**Table 4 Independence and objectivity disclosures**

Issue	Safeguards established
KPMG's Appointed Auditor is currently a governor of a primary school in Wiltshire.	No direct threats to independence have been identified. However, the Appointed Auditor will keep this issue under review.
<p>Prior to KPMG's appointment as the Council's auditors, the firm's tax practice had been engaged by the Council to advise on the potential for the county pension fund to reclaim tax suffered on foreign dividends. The claim relates to a group litigation order which KPMG is representing, with the Council being one of many participating organisations.</p> <p>KPMG's tax advisory work was completed some time ago, but the final decision is dependent on a court order.</p>	<p>There is complete separation internally within KPMG between the tax advisory team and the audit team for the Council. This is only considered to be a 'live' issue because of the outstanding court order, for which KPMG has no influence on the timing or eventual outcome. There is no on-going tax advisory work.</p>

- 62 We are satisfied that these issues do not prejudice our independence and objectivity, and that the established safeguards will ensure that this is the case. We are not aware of any other relationships that may affect the independence and objectivity of the Appointed Auditor and the audit staff, which auditing and ethical standards require us to communicate to you.

## Quality of service

- 63 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or Appointed Auditor in the first instance. Alternatively you may wish to contact the Audit Commission's South West Head of Operations, Bill Sanderson. For complaints concerning the external audit you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees ([trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)).
- 64 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet Something to Complain About which is available from the Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) or on request.

## Planned outputs

- 65 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

**Table 5**      **Planned outputs**

Planned output	Indicative date	Responsibility
Audit & inspection plan	30 June 2007	Relationship Manager & KPMG
Data quality report	31 October 2007	District Auditor
Use of resources report	31 December 2007	District Auditor
Best Value audit report	31 December 2007	District Auditor
Interim audit memorandum	30 June 2008	KPMG
Annual governance report	30 September 2008	KPMG
Opinion on the financial statements and value for money conclusion	30 September 2008	KPMG
Annual external audit report	31 December 2008	KPMG
Use of Resources projects: <ul style="list-style-type: none"> <li>Local Area Agreements</li> <li>Business continuity</li> </ul>	TBC TBC	KPMG
Direction of Travel assessment	February 2008	Relationship Manager
Annual audit and inspection letter	March 2008	Relationship Manager & KPMG

## Appendix 1 – Initial risk assessment: use of resources

The following table summarises our assessment of the significant residual audit risks impacting on our use of resources audit responsibilities. Unless otherwise stated, our audit approach is to consider the risks as part of our standard review of the Council's use of resources arrangements, in order to inform our 2007/08 VFM conclusion (to be issued in September 2008). If more detailed work is planned, for example through a specific audit project, this will be highlighted.

Significant risks identified	Mitigating action by audited body	Significant residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<b>Partnerships</b> The delivery of many of the Council's priorities relies on partnerships with the voluntary sector and other public organisations. There is a risk that without a consistent approach to partnership working the Council could fail to deliver its agenda and damage its reputation.	The Council has recognised the need to strengthen its partnership arrangements to address the issues of governance, accountability and risk. It is introducing a new policy framework for evaluating, approving and registering partnerships, with all partnerships to be placed into one of three risk categories.	Yes	As part of our work for the VFM conclusion, we will consider the Council's developing arrangements to support partnership working generally.	KLOE 4.1 - managing significant business risks KLOE 4.2 - system of internal control
The Council is a partner in the Wiltshire Local Area Agreement (LAA), established from 2007/08. There is a risk that the LAA will not achieve its stated ambitions.	The Council was involved in developing and agreeing the LAA and represented on the oversight board. The focus of LAA partners is now on developing the necessary governance arrangements.	Yes	We will undertake a diagnostic project to consider the developing governance, financial management and performance management arrangements for the LAA. If this diagnostic identifies the need for further more detailed audit work, we will discuss and agree this with the Council. As the Council is the accountable body for the LAA, we will also consider the accounting implications as part of our financial statements audit.	KLOE 4.1 - managing significant business risks KLOE 4.2 - system of internal control

Significant risks identified	Mitigating action by audited body	Significant residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<b>Local Government Reorganisation</b> There is a risk that the bid for unitary status could destabilise the Council and impair relations with the partners.	The Council has recognised this risk within its strategic risk register.	No	We will liaise closely with the District Auditor, as the Council's out-going auditor, to consider the need for any audit response to emerging issues (e.g. adherence to the Local Government Publicity Code). We will consider the need for any detailed audit work if the Council is awarded unitary status.	-
<b>Business continuity &amp; IT</b> There is a risk that the Council may not be able to provide a complete business continuity solution for its critical services (IT systems in particular).	The Council is reviewing its corporate business continuity plan.	Yes	We will undertake a project to review the Council's business continuity arrangements, with a particular emphasis on IT.	KLOE 4.2 - system of internal control
The Council is procuring a new business management system to provide integrated finance, payroll, HR and e-procurement applications. As with all significant IT projects, there is a risk that it will not meet its stated aims or timetable, or that costs will escalate.	The Council is applying robust project management arrangements to this major scheme. There is a three year timetable, with the selection of a preferred partner anticipated by the end of 2007. Internal Audit will review arrangements on an on-going basis to provide assurance on compliance with procurement rules and key risks.	Yes	We will place reliance on Internal Audit's work on the business management system. We will discuss the need for any further external audit work with the Council should significant risks emerge.	KLOE 4.2 - system of internal control

Significant risks identified	Mitigating action by audited body	Significant residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
The Council's 'New ways of working' project is considering ways to use IT to facilitate remote and home working. If not successful, there is a risk that this could impact on the Council's ability to deliver services.	The Council is applying robust project management arrangements to this project.	No	No specific work planned at this stage under our Code responsibilities. There is potential to undertake a Voluntary Improvement project, should the Council wish to commission a detailed review.	-
<b>Managing resources, policy &amp; risk</b> The Council is adopting a new policy framework on the management of resources, performance and risk. This will enhance its ability to manage these key areas in an integrated and dynamic way. Significant changes to processes, such as this, present the risk of disruption or deterioration in management arrangements or services.	The Council adopted a new policy framework in March 2007 and is introducing a new performance management system (Excelsis), on an interim basis, in advance of the new business management system. This will build on improvements in recent years to medium term financial planning and risk management arrangements.	Yes	We will consider the Council's developing arrangements as part of our work for the VFM conclusion.	KLOE 2.1 - medium term financial strategy KLOE 4.1 - managing significant business risks
<b>Medium term financial strategy</b> Like many local authorities, the Council faces a challenging budget situation, requiring the identification of significant efficiencies and savings. Particular 'demand pull' cost pressures are faced on certain service areas (e.g. adults services). Failure to meet these challenges will impact on the Council's financial standing and its achievement of corporate and service objectives.	The Council has a detailed medium term financial strategy (MTFS) which it updates regularly and is seeking to develop further (eg moving from a three year to a five year horizon).	Yes	We will consider the Council's medium term financial planning as part of our work for the VFM conclusion.	KLOE 2.1 - medium term financial strategy KLOE 2.2 - performance against budget

Significant risks identified	Mitigating action by audited body	Significant residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>All local authorities were obliged to complete a local pay review by 31 March 2007 and implement the Single Status provisions contained within the 1997 Implementation Agreement.</p> <p>Single Status could impact on the Council in a number of ways (costs, staff morale and retention, service performance), with potential for employee unrest and legal claims for equal pay.</p>	<p>The Council has undertaken the required job evaluation exercise.</p>	<p>Yes</p>	<p>We will monitor the Council's progress in addressing and managing this risk.</p>	<p>KLOE 2.1 - medium term financial strategy</p>
<p><b>Equalities</b></p> <p>The Disability Equality Duty for the public sector came into being in December 2006. Failure to put adequate arrangements in place to meet the new legal requirements could lead to legal action or claims against the Council by anyone with sufficient interest in the matter, or by the Disability Rights Commission.</p> <p>The Gender Equality Duty came into force in April 2007 and requires public authorities to promote gender equality and eliminate sex discrimination.</p>	<p>The Council approved its Disability Equality Scheme (DES) in December 2006 and its Gender Equality Scheme (GES) in March 2007.</p>	<p>Yes</p>	<p>We will briefly consider the Council's DES and GES as part of our work for the VFM conclusion.</p> <p>We will also follow up progress against the Audit Commission's 'Equalities &amp; Diversity Review' (February 2007).</p>	<p>KLOE 4.2 - system of internal control</p>

Significant risks identified	Mitigating action by audited body	Significant residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<b>Fraud &amp; corruption</b> The Council may not have an established and embedded anti-fraud and corruption culture, supported by appropriate policies and practices.	The Council's Internal Audit department is commencing a review of counter fraud and corruption arrangements, drawing on recent guidance from the CIPFA Better Governance Forum on managing the risk of fraud.	Yes	We will consider the results of Internal Audit's work as part of our work for the VFM conclusion.	KLOE 4.3 - probity and propriety



## Appendix 2 – Audit and inspection fee

- 1 Table 6 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 6 Breakdown of the audit and inspection fee**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
Audit		
Financial statements	159,472	155,204
Use of resources (including BVPP and data quality)	63,207*	61,515
Whole of government accounts	2,733	2,660**
National Fraud Initiative	1,200	-
Total audit fee	<b>226,612</b>	<b>219,379</b>
Inspection		
Relationship management	7,375	12,672
Direction of Travel	7,375	[included in RM]
Service inspection	-	-
Corporate inspection	-	-
Total inspection fee	<b>14,750</b>	<b>12,672</b>
Total audit and inspection fee	<b>241,362</b>	<b>232,051</b>

\* Includes £41,934 for audit work on use of resources, data quality and the BVPP to be completed by the District Auditor.

\*\* The original fee in the 2006/07 audit and inspection plan did not include the work in relation to the Whole of Government Accounts.

- 2 The Audit Commission scale fee for County Council is £201,261. The audit fee proposed for 2007/08 is twelve per cent above the scale fee and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The increase in the fee from 2006/07 reflects inflation of 2.75 per cent, as outlined in the Audit Commission's Work programme and fee scales, plus additional work on the National Fraud Initiative specified by the Audit Commission for 2007/08.
- 6 The inspection fee (£14,750 plus VAT) and the fee for the use of resources and data quality audit (£41,934 plus VAT) will be charged separately by the Audit Commission in 12 equal instalments from April 2007 to March 2008.
- 7 The balance of the audit fee (£184,678 plus VAT) will be charged by KPMG in four equal instalments between July 2007 and March 2008.

## Specific audit risk factors

- 8 In setting the audit fee we have taken into account the following specific risk factors:
  - the use of resources risk factors identified in Appendix 1; and
  - the additional work specified by the Audit Commission for Whole of Government Accounts and the National Fraud Initiative.

## Assumptions

- 9 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - the Council will identify and implement the changes required under the 2007 SORP within its 2007/08 financial statements;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;

- good quality working papers and records will be provided to support the financial statements at the commencement of the final accounts audit;
  - your financial statements are made available for audit in line with the timetable we will agree with you, and will not contain significant errors;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 10** Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 11** Fees relating to consideration of any local electors' questions and objections, or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, will be charged in addition to any variation to the scale fee at rates reflecting risk and complexity.
- 12** Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Wiltshire County Council could take to reduce its audit and inspection fees**

- 13** The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. As this is KPMG's first year auditing the Council, we are not in a position to consider this in detail. However, the 'assumptions' commentary above outlines how the Council can support our audit work. Delivering against these expectations will support the delivery of the audit within the agreed fee.

## **Process for agreeing any changes in audit fees**

- 14** If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Council.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of KPMG's appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the Appointed Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the Appointed Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the Appointed Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.