

Audit Summary Report

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Final Accounts report

Wiltshire County Council

Audit 2004/2005

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Introduction

- 1 Under the Audit Commission Act 1998, we are required to give an opinion as to whether Wiltshire County Council's statement of accounts presents fairly its financial position, that proper practices have been observed in compiling the accounts and that the accounting policies, notes and supporting statements sufficiently and accurately reflect the transactions of the Council.
- 2 This report summarises the results of this audit, including the main matters arising. An action plan is to be developed in consultation with officers to address the main areas of weakness identified. It is our intention to bring this completed action plan to the next meeting of the Final Accounts and Audit Committee in December 2005.
- 3 Importantly this report includes at appendix 1 our statutory SAS610 report required under our professional auditing standards. This report to 'those charged with governance' sets out certain matters arising from the audit for consideration by the Final Account's and Audit Committee on the 26 September 2005.

Background

- 4 The Council is responsible for the preparation of financial statements that present fairly its financial position as at 31 March 2005 and its income and expenditure in the year then ended. The code requires us to form an opinion on the statements. Our audit work on the statements was planned to ensure:
 - they are free from material mis-statement; and
 - relevant accounting standards and guidelines have been followed.
- 5 In particular, we are required to express an audit opinion on the following statements and their supporting notes:
 - the consolidated revenue account
 - the balance sheet
 - the pension fund
 - the cash flow statement and the statement of total movements in reserves.
- 6 The Council's draft statements were adopted by the old Final Accounts Committee on the 30 June 2005. A copy of these draft statements and the supporting working papers were submitted to us for audit on 15 July 2005 in accordance with the agreed timetable. Our final accounts audit took place between July and September 2005.
- 7 The section 15/16 date, where members of the public can question the auditor about the accounts, took place on the 9 September 2005. As with previous years nobody sought to exercise these rights this year.

Audit approach

- 8 At the interim stage, we carried out testing to assess the adequacy of the 'core processes' which form the basis of the preparation of the Council's financial statements. These are:
 - the main accounting system,
 - budgetary control procedures, and
 - year-end closedown procedures.
- 9 Our work in this area indicated that there was a low risk of your core processes not identifying an error likely to have a material impact on your financial statements. Our 2004/2005 final accounts audit was planned on this basis.
- 10 In light of some of the delays experienced during the 2003/2004 accounts audit we agreed to try and work more proactively with your Treasurer and his team during this year's the closedown period. To this end we held a series of meetings between February and June to ensure technical information was shared and any significant issues were dealt with appropriately. As part of this process an audit pack was issued setting out the working paper requirements to support the draft 2004/2005 statements.
- 11 On receipt of the draft accounts and supporting working papers our planning ensured we targeted our testing more at the key risk areas of the accounts. This involved more up front planning than previous years including a detailed disclosure review and more emphasis on analytical review.
- 12 Our approach essentially consisted of:
 - review of the statements,
 - assessment of working papers,
 - agreement to the ledger,
 - robust analytical review,
 - disclosure in accordance with the Statement of Recommended Practice,
 - letter of representation from management,
 - specific essential testing on areas such as your bank reconciliation,
 - additional detailed testing on risk areas based on the above and materiality calculations, and
 - closing procedures, including the consideration of any errors and uncertainties and their impact if any on the opinion.

Main conclusions

- 13 Our final accounts audit concluded that the Council has adequate arrangements in place for the production of the financial statements. We intend to issue an unqualified audit opinion on the Council's 2004/2005 revised financial statements in early October 2005 following the approval of the System of Internal Control and the presentation of our SAS610 report to the Final Accounts and Audit Committee on 26 September 2005.
- 14 As a result of our testing we have identified a number of material and non-material errors in the draft 2004/2005 statement of accounts. Officers have made changes to the adopted accounts to correct all the material and a number of non-material errors. As a result we are happy that the revised accounts, to be presented to the Final Accounts and Audit Committee on the 26 September 2005 are free from material error and present fairly the financial position of the Council as at 31 March 2005 and its income and expenditure for the year then ended.
- 15 A detailed description of all significant adjustments to the draft accounts is provided in the SAS610 report at Appendix 1. Importantly, although significant in value most of the material changes to the accounts are of a technical accounting nature and do not affect the bottom line of any of the main statements in the accounts.
- 16 Over and above the errors referred to above, there are a number of issues identified during the course of our audit that offer scope for further investigation or improvement. These will be discussed with officers and an action plan developed to bring about improvement.
- 17 The ongoing dialogue and communication between ourselves and your finance staff during the closedown and final accounts processes, has in our view significantly enhanced the experience this year for all involved. The Council is to be commended for producing and approving a draft set of accounts in advance of the 31 July deadline. As a result we are now in a position to issue our opinion on these accounts some 5 months ahead of last year. This early closedown places the council in the enviable position of knowing it is already capable of meeting the earlier approval deadline of the 30 June required for the 2005/2006 accounts.
- 18 Prior to the final accounts audit we agreed the core working papers required to support the financial statements with the accountancy staff. We found that the papers that had been completed to an adequate standard, but that scope now exists to improve them for next year. In particular, this year's working papers did not:
 - always follow the format of our agreed audit pack,
 - provide all documents requested,
 - facilitate the reconciliation of the accounts to the council's ledger system,
 - provide a comprehensive analytical review with explanations of variances'
 - include the completion of all technical checklists.

Way forward

- 19 The council has again improved its final accounts process this year. The council needs to maintain this impetus and ensure that further improvements are achieved next year. We are confident in your commitment to implementing the required changes and we will continue to work with your finance staff over the next 12 months to provide support wherever possible.
- 20 This year's audit has progressed smoothly and has been achieved through co-operation and early planning on both sides. We would like to take this opportunity to thank finance officers for their support and co-operation throughout the course of our final accounts audit.

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Appendix 1 – Report Concerning the Audit of the Financial Statements to Those Charged with Governance (SAS610)

INSIDE THIS REPORT

Summary Report

- Introduction
- Status of the audit
- Matters to be reported to those charged with governance

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Introduction

Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report;
- unadjusted non-trifling misstatements;
- material weaknesses in accounting and internal control systems;
- qualitative aspects of accounting practice and financial reporting;
- matters required by other auditing standards to be reported to those charged with governance; and
- other matters that we wish to draw to your attention.

We have agreed with the Council that the communications required under these auditing standards would be with the Final Accounts and Audit Committee. This report sets out for this Committee's consideration the matters arising from the audit of the financial statements for 2004/2005.

Status of the audit

Our work on the financial statements is substantially complete, subject to the satisfactory resolution of some minor outstanding queries, we anticipate being able to issue an unqualified opinion in early October ahead of the 30 October 2005 deadline. If any further issues arise following our meeting with the Final Accounts and Audit Committee that require reporting under SAS610, we will raise them with the Chair.

Matters to be reported to those charged with governance

We have the following matters to draw to the Final Accounts and Audit Committee's attention.

Expected modifications to the audit opinion and certificate

As at 26 September 2005 we have not identified any issues that will require us to qualify our opinion or issue a non-standard report on the Council's financial statements.

Officers have agreed to amend the adopted financial statements if any material errors or omissions are identified between now and the giving of the auditor's opinion on the Council's financial statements. If any material issues arise that cannot be addressed by amendment, we will report details to officers and the Chair of the Final Accounts and Audit Committee.

Unadjusted non-trifling misstatements

In circumstances where auditors identify non-trifling misstatements in the financial statements, they are required to bring these to the attention of management. (A trifling error is an entirely inconsequential error, whether taken individually or in aggregate and whether judged by quantitative and/or qualitative criteria.)

There are no unadjusted non-trifling misstatements in the accounts.

Our audit did, however, identify a number of non-trifling misstatements now corrected in the revised accounts. The main corrected misstatements we wish to bring to your attention are:

- **Deferred charges (1)** - A review of the treatment of in year deferred charge expenditure of approx £13.1m indicated that expenditure was not charged to the consolidated revenue account (CRA) and had instead been written straight off to the fixed asset restatement account (FARA). Capital accounting guidance requires expenditure to be charged to service revenue accounts and reversed out through appropriations, with the total being written off to the capital financing account (CFA). The net result of this error was to understate the gross expenditure in the CRA by £13.1m and to understate FARA by £13.1m with the CFA being overstated by the same amount.
- **Deferred charges (2)** - The Council have written out £16.055m of deferred charges from the balance sheet at 1 April 2004 in accordance with the requirements. However, this figure had been written off incorrectly against FARA resulting in FARA being understated by £16.055m and the CFA being overstated by £16.055m.
- **Capital Receipts set-aside** - As part of our testing on asset disposals a copy of the breakdown of capital receipts was obtained. This indicated that for the transaction being tested that the actual set aside did not agree with the spreadsheet used to produce the accounts. The Council confirmed that this was an old version and that as a result the capital receipts set-aside disclosed in the accounts was wrong. The impact of this error was to overstate usable capital receipts (UCR) by £1.293m and understate CFA by the same. However, a number of other minor errors on set-aside calculations were also identified resulting in the UCR being overstated by £1.206m and the CFA being understated by £1.206m.
- **Magistrates Court Expenditure** -Magistrates courts need to be disclosed as a discontinued operation in the accounts. The Council had separately identified this as a discontinued service in line with para 3.17 of the SoRP 2004 which requires the income and expenditure directly related to the discontinued operation to be shown separately on the CRA under the heading of discontinued operations. However, the accounts included only the net spend in this area totalling £1.211m. Actual gross expenditure on this service was £6.407m. The council has grossed up these figures in the revised accounts.

- **Trading account deficit** - The trading account deficit of £1.589m in the CRA understates the true position of trading accounts in the year. This is because they include income and expenditure in respect to e-government and PFI activities that should not be recorded here. These have now been moved into a more appropriate location in the CRA.
- **Interest from Investment Income** -The CRA included £0.188m of investment income. Our testing on investments indicated this figure to be in the region of £0.414m. The Council has now corrected these entries.

Our review also identified the following non-material uncorrected error:

- **Fixed Assets - Filands** - The Council's disposed of its Filands site in 2004/2005 resulted in a total receipt of £11.475m. The value of the site in the asset register was only £0.071m, but this has not been written out of the accounts or the asset register at year end. The result of this is that the fixed asset figure in the accounts is overstated by £0.071m. Due to the size of the error the council are not proposing to change the accounts this year but have now written it out of the asset register.

Material weaknesses in the accounts and internal control systems

SAS 610 places specific duties on auditors to report their assessment of qualitative aspects of accounting practices and financial reporting to those charged with governance:

There are no material weaknesses to report for SAS 610 purposes.

Qualitative aspects of accounting practice and financial reporting

SAS 610 places specific duties on auditors to report their assessment of qualitative aspects of accounting practices and financial reporting to those charged with governance:

We have carefully considered the above qualitative aspects of the Council's accounting practices and financial reporting. The only matters that we wish to draw to your attention are:

- **Fixed Assets (Buildings)** - When the Council incurs capital expenditure on improvements to its capital assets the value of the asset is increased by the full value of the expenditure. Only when the asset is then subsequently revalued as part of the 4 year revaluation cycle is the true value of the asset reconsidered and adjusted were necessary. There is a risk that those assets undergoing improvements in the year are overstated in the accounts.
- **Fixed Assets (Infrastructure)** - The Council incurred approximately £26m of capital expenditure on maintaining its roads and bridges in the year. The full

value of this expenditure is added to the infrastructure asset figure appearing in the accounts each year. The justification for this is that the infrastructure assets were valued at zero following the change in capital accounting requirements back in 1997/98. There is a risk that this approach may not provide the best assessment of the true value of these assets owned by the Council.

Matters required by other auditing standards to be reported to those charged with governance

Other auditing standards require us to communicate with you in other specific circumstances, including:

- where we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements
- in respect of the conclusion that the Council is a going concern
- where there is an inconsistency between the Council's financial statements and other information in documents containing the financial statements.

We have identified no such matters in the course of our audit to date.

Other matters

There are no further matters which we need to report to you.

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