KPMG

GOVERNMENT

Report to those charged with governance

2007/08 audit

Wiltshire County Council

17 September 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson who is the engagement lead to the Council (telephone: 0118 964 2269, email: chris.wilson@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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Executive summary

Purpose of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report to those charged with governance (in this case the Final Accounts & Audit Committee) at the time you are considering the financial statements. We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2008 together with the outcome of the programme of work we have performed to support our conclusion on the Council's use of resources. It has been prepared for presentation to the Final Accounts & Audit Committee on 30 September 2008.

This report does not repeat matters we have previously communicated to you. A summary of the reports we have issued in the year is set out in Appendix 5. Once we have finalised our opinions and conclusions we will prepare our Annual Audit & Inspection Letter jointly with your Audit Commission Comprehensive Area Assessment Lead to close our audit.

Our opinions and conclusions

Use of Resources

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our findings are detailed in section two of this report and our proposed conclusion is set out in Appendix 1.

Accounts and Annual Statement of Governance

The Council is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have now completed the audit in line with the deadline. We have identified no issues in the course of the audit that are considered to be material. On receiving your management representations letter we expect to issue an unqualified audit opinion on 30 September 2008. We have also provided you with a review of the accounts production process and how this can be improved in the future. We will also report that the wording of your Annual Governance Statement accords with our understanding.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 2.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. A small number of local electors did exercise their right to raise questions with us during the last year, but this did not highlight any significant issues. We therefore did not exercise these powers or issue a report in the public interest in 2007/08.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

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Executive summary (continued)

Status of the audit

At the date of this report our audit work is substantially complete subject to completion of the following areas:

- Final analytical procedures and review of the Statement of Accounts to be presented to the Final Accounts and Audit Committee
- Reconciliation of the trial balance to the final statement of accounts
- Verification of the Excel trial balance to Aptos system (via EAS)
- Receipt of a number of outstanding bank and investment confirmations
- Pension scheme: still awaiting confirmation from Swindon College in order to complete starters and leavers testing
- Pension scheme: agreement of derivatives to supporting documentation
- The VFM conclusion is subject to finalisation of our work on the Data Quality Stage 1 work and Use of Resources.

We will provide a verbal update on these items at the Final Accounts & Audit Committee.

We now require a signed management representation letter, and have provided a draft of this in Appendix 7.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Wiltshire County Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 in accordance with ISA 260.

Fees

Our fee for the audit is £226,612. This has been contained within the totals agreed with you in our audit plan. We have not performed any non-audit work.

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Use of resources

We are required to satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessment we make during the year, including the use of resources assessment.

Based upon this we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction

In our audit plan we outlined the work streams we consider to assess whether the arrangements you have in place to ensure that your resources are deployed effectively are appropriate. Our conclusion is based on these work streams, including your use of resources (UoR) self assessment, and our cumulative audit knowledge.

UoR assessments

This assessment analyses your performance against the five themes published by the Audit Commission. The scoring of the themes ranges from one (inadequate) to four (performing strongly). A score of level 2 or above is sufficient to support an unqualified opinion value r money conclusion. Your results for last year are summarised below:

Theme	Provisional 2007/08 score	2006/07 score	How findings are reported
Financial Reporting	2/3	3	This work was undertaken in two phases between March and September 2008. These scores have yet to be finalised or reported in detail and remain draft pending the national Quality Control (QC) process by the Audit Commission. A more detailed report will be provided once this has been completed.
Financial Management	3	3	
Financial Standing	3	3	
Internal Control	2	3	
Value for Money	3	3	

The overall score from your 2007/08 assessment indicates that you are performing well (level 3). Key findings from this work were:

- **Financial Reporting:** the quality and completeness of the accounts presented for audit was satisfactory. A number of non-trivial errors were identified, as well as several trivial errors and disclosure omissions. These will need to be eliminated in future in order to achieve a higher score for this theme. Committee papers need to be made available in accessible formats, or at least to publicise that these are available on request. We are still awaiting evidence to support a small number of KLOEs at level three which will determine the final score awarded.
- **Financial management:** the budget setting, monitoring and reporting process is robust and undergoes an appropriate level of scrutiny. However, there is scope for improvement in the timeliness of reporting to members as well as in the production of accruals based financial monitoring reports and reporting of relevant balance sheet items. The expected benefits of SAP implementation should help to achieve this and will be one of the improvements necessary to achieve a level 4 for this theme.
- **Financial management:** some clear improvements have been made to the arrangements for managing the Council's asset base, including use of 'Targeting Investment' scoring criteria in the new Corporate Asset Investment Plan and use of whole life costing. These processes will need to be fully embedded and implemented across the whole organisation to achieve a higher score for this theme.
- **Internal control:** some marked improvements are being implemented to the risk management process although these processes will not be fully embedded until 2008/09 at the earliest. A structured business continuity plan is currently being developed and implemented, although sufficient planned testing (an additional requirement to achieve level 3 this year) was not carried out in 2007/08 and this has led to a reduction in the overall score for this theme.
- **Value for Money:** the Council has made good efficiency savings in line with the three year Gershon targets. Service standards have remained broadly similar with some minor improvements being noted, for example, in children and education services.

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Accounts and Annual Statement of Governance

We have now completed the audit in line with our agreed audit plan. We have identified no issues in the course of the audit that are considered to be material. On receiving your management representations letter we will issue an unqualified audit opinion on 30 September 2008. We have also provided you with a review of the accounts production process and how this can be improved in the future. We will also report that the wording of your Annual Governance Statement accords with our understanding

Introduction

The tasks we perform in our review of your financial statements are summarised below. They are split between those which are undertaken before, during and after production of the accounts.

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by client list: issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We reported on the work carried out relating to the pre-accounts production stage as part of our Interim Audit Report. Below we focus on stages five and six:

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of this process we have considered specifically the following three criteria:

Element	Commentary
Completeness of draft accounts	The draft accounts presented at the start of the audit visit were complete. A number of minor amendments had been made to those approved by the Final Accounts and Audit Committee on 30 June 2008. A number of trivial errors were identified as part of the audit process as well as some missing disclosure items. No material adjustments were identified as part of our audit work.
Quality of supporting working papers	The Quality of supporting working papers provided to KPMG was satisfactory. The vast majority of working papers requested by KPMG as part of the Accounts Audit Protocol 2007/08 had been provided. Most were clearly referenced so that a good audit trail existed, although there was often insufficient explanation contained within these supporting papers. However, the Council staff were able to provide these necessary explanations when asked to do so.
Response to audit queries	The response to audit queries was, on the whole, positive. The main contacts within the Corporate Finance department were extremely helpful and responded to queries promptly. In some cases Council staff were unavailable due to work and other commitments, but attempts were made to work around this. The main knowledge gap came from staff turnover in key positions, where previous incumbents had not left a clear audit trail. For example, the Finance team could not explain fully the prior year audit adjustments as these had not been documented clearly last year.

As a result of the above we have raised a number of recommendations which are included within Appendix 4.

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Accounts and Annual Statement of Governance (continued)

Testing

We identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements. In accordance with ISA 260 we are required to communicate these uncorrected audit differences to you.

We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities. Again, there are none that are considered material, although for completeness we have summarised the significant, but not material, differences that we identified through our audit which have been corrected in the financial statements. These are summarised in Appendix 3.

Opinions and Representations

As part of the finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 6.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the finance team on 12 September 2008. We have also included a copy of this as Appendix 7. Once we have received this we will issue our audit opinion.

Other matters

ISA260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc) and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

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Appendix 1: Proposed use of resources conclusion

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to satisfy ourselves that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

In 2007 your appointed auditor was required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying he had done so;
- stating whether he believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Proposed Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Wiltshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

The previous Audit Commission appointed auditor issued his statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 10 December 2007. He did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
Bristol

30 September 2008

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Appendix 2: Proposed audit report

Independent auditor's report to the Members of Wiltshire County Council

Opinion on the statement of accounts

We have audited the Authority statement of accounts, pension fund accounts and related notes of Wiltshire County Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority statement of accounts and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Wiltshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Wiltshire County Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Wiltshire County Council as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the statement of accounts, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority statement of accounts, pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority statement of accounts and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information. We are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority statement of accounts, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts, pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority statement of accounts, pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority statement of accounts, pension fund accounts and related notes.

Opinion

In our opinion:

- The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended;
- The pension fund accounts and related notes presents fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP
Chartered Accountants
Bristol

30 September 2008

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Appendix 3: Audit differences

We are required by *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Final Accounts and Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

This appendix sets out the audit differences identified by our audit of Wiltshire County Council for the year ended 31 March 2008.

Uncorrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on your reported financial position.

Impact (£000s)			Basis of audit difference
Income and expenditure	Balance sheet	SoMGFB	
-	(4,503) 4,503	-	Land and buildings **(Prior year)** Capital adjustment account **(Prior year)** The prior period adjustment in relation to the PFI scheme does not constitute a fundamental error and, as such, we recommend that it be adjusted in the current year rather than being shown as a prior period adjustment as is currently the case.
 (387)	 (7,331) (2,232) 9,563	387	SoMGFB (Taken to CAA) Income and expense (PFI Cost) PFI Prepayment PFI Long term debtor Fixed asset cost This adjustment re-instates the land element of the PFI scheme into fixed assets (from debtors) and makes a small adjustment to the PFI charge in the year.
-	5,590 (5,590) (5,590) 5,590	-	Creditors **(Prior year)** Earmarked reserves **(Prior year)** Creditors Earmarked reserves Again, the prior period adjustment made in respect of Deferred Grant on the George Ward school does not constitute a fundamental error and so it is recommended that the adjustment be made in the current year.

For pension scheme uncorrected differences, see over.

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Appendix 3: Audit differences

Uncorrected audit differences (continued)

Impact (£000s)		Basis of audit difference
Fund account	Net asset statement	
-	1,205 (1,205)	Debtors Cash The pension cash is classified as cash both in the WCC main statement of accounts and the Pension Fund accounts. A reclassification to debtors is suggested in order to make the two sets consistent.
1,764	 (1,764)	Change in Market Value of investments Investments – Fauchier Being correction of value per custodian report at 31 March 2008

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Appendix 3: Audit differences

Corrected audit differences

Detailed below are the audit differences that have been corrected.

Impact (£000s)		Basis of audit difference	Reason for adjustment
Income and expenditure	Balance sheet		
3,732 (3,732)	-	Pension interest cost (net impact) Net cost of services (apportioned between the seven statutory service lines)	Presentational adjustment made to pension interest cost on the face of the I&E account. Note: a further disclosure adjustment was required to show pension interest cost gross of expected return on pension scheme assets.
-	-	A number of other changes were made between the draft statement of accounts presented to Final Accounts and Audit Committee on 30 June 2008 and the draft presented for audit, largely relating to pension scheme interest cost. These are not disclosed in this report.	To reflect changes identified by the Council's finance team.
-	-	Several trivial audit adjustments have also been posted although, again, these are not disclosed in this report.	To address identified misstatements or errors.

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Appendix 3: Audit differences

Corrected audit differences (continued)

Impact		Basis of audit difference	Reason for adjustment
Income and expenditure	Balance sheet		
-	-	A number of disclosure and presentational adjustments have been made to the accounts including: • **Income and expenditure account:** disclosure of gross pension interest cost and expected return on pension scheme assets was required • **Income and expenditure account:** re-analysis of £33.8m gross expenditure between Education and Social services was required to reflect the new requirements under BVACOP accounting principles. This had no impact on overall Net Cost of Services, and as such, is included within this disclosure section • **Statement of movement on the general fund balance:** draft accounts showed only the net pension cost – this has been amended to show net charges made for retirement benefits separately from employer contributions payable to the fund •**Cashflow statement:** separate disclosure required between interest / capital elements of finance leases • **Accounting policies:** paragraph inserted explaining the impact of SORP changes on the Council's accounting policies (in respect of financial instruments and capital reserves) • **Note 4:** amendment to Officers Emoluments disclosure (re-allocation of staff between monetary bandings) • **Note 7:** incorrect figures shown in audit costs disclosure • **Note 16:** some presentational adjustments required to Movements on Fixed Assets headings • **Note 22:** adjustment to Assets under finance leases disclosure (inclusion of depreciation charge for year and changes to column headings) • **Note 34:** inclusion of narrative description of the purpose of each provision as well as added details on insurance provisions • **Note 38:** disclosure of the main financial FRS17 assumptions at 31 March 2007 and 2008. Also, added narrative regarding TPA contribution rates and accruals at year end • **Note 39:** narrative description added regarding nature of cash balances • **Note 42:** reconciliation of the net cash flow to movement in net debt note had been omitted • **General:** various changes to narrative in notes, as well as numerous casting and cross-referencing errors	To ensure the Statement of Accounts complies with the disclosure requirements of the SORP.

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Appendix 3: Audit differences

Corrected audit differences (continued)

Impact		Basis of audit difference	Reason for adjustment
Income and expenditure	Balance sheet		
-	-	A number of disclosure and presentational adjustments have been made to the pension scheme accounts, including: • **Fund account:** additional line required on the face of the fund account (State Scheme Premiums) • **Note 9:** note on Derivative contracts was omitted • **General:** various changes to narrative required including references to relevant statutory regulations amongst others	To ensure the Statement of Accounts comply with the disclosure requirements of the SORP.

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Appendix 4: Accounts recommendations

This appendix summarises our recommendations relating to the accounts production process. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating for performance improvement observations raised		
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Number	Risk	Issue and recommendation	Management response	Officer and due date
1	● *(two)*	*De minimis* limits on capital expenditure need to be considered, particularly bearing in mind the transition to One Council. The SORP allows an appropriate *de minimis* level to be set whereby expenditure on fixed assets beneath that level is not recognised as capital expenditure and no fixed asset is recognised in the balance sheet, provided that by doing so there is not a material impact on the accounts. The Council has adopted a consistent *de minimis* level of £50,000 for a number of years. In 2007/08, over £10m of capital items with a value below £50,000 were expensed through the I&E. This is approaching a material difference. The Council should consider what level is appropriate for the future, bearing in mind the SORP requirements. Further consideration will need to be given to the transitional arrangements for aligning the district councils to this policy, particularly the impact on their capital / revenue budgets.	The authority is reviewing the de minimis levels as part of the One Council for Wiltshire project including consideration of a transitional arrangement for aligning the district councils with the county council. This is being considered by the capital workstream group and will focus on what is an appropriate level in the context of the SORP requirement.	Chief Financial Officer (via Capital Workstream Group)
2	● *(two)*	The Statement of Accounts should be subject to thorough review before submission for audit. This should include completion (and documentation) of the SORP checklist, casting of all primary statements and notes and checking cross-references / internal consistency throughout. This would help eliminate the number of trivial and disclosure issues identified as part of our audit work.	The SORP checklist was reviewed prior to audit and several notes were expanded from the 2006/07 disclosure as a result (for example, note 10 finance leases). Casting of primary statements and notes and checking cross-references / internal consistency throughout was carried out prior to audit and errors found by the auditors in this area were, as documented above, trivial. It is not considered cost effective to eliminate rounding differences until the audit is finalised and the accounts are ready to be published as rounding differences occur in the accounts due to links to original documents which aids the audit process both internally and externally. The need for this review to be more thorough and timely and also the need to document it more fully are accepted however, and will be undertaken next year.	Corporate Finance Manager (2008/09 accounts closedown)

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Appendix 4: Accounts recommendations (continued)

Number	Risk	Issue and recommendation	Management response	Officer and due date
3	● (three)	Unapplied government grants are approaching a material amount. If these continue to increase, then separate disclosure within creditors will need to be made. The Council should review this situation for the 2008/09 accounts and ensure that separate disclosure is made if required.	A review of the level of government grants for the 2008/09 accounts will be undertaken and disclosure included if necessary.	Financial Accounting Manager (2008/09 accounts closedown)
4	● (three)	Some very small quantitative errors were noted on financial instrument calculations. The impact on current year figures is trivial, however this will have a cumulative impact so should be corrected going forwards.	As noted the errors were trivial on what was a very complex and highly technical area to understand and to report upon. The calculations will be monitored going forward to ensure any minor errors do not become material.	Principal Accountant (Assets & Investments) (On-going)
5	● (three)	Records should be maintained of the difference between historic cost and revalued depreciation as the SORP requires this to be disclosed. Whilst this does not have a material impact on the current year, it should be considered in future, particularly how this information will be captured by the new finance system.	This has already been identified as part of the BMP project and the fields required in the new finance system are being considered by the fixed asset accounting group. They are using the SORP as guidance to necessary information and this audit comment has been brought to the attention of this group.	Chief Finance Officer (via Fixed Asset Accounting Group)
6	● *(two)*	**Pension scheme** Some Employees and Employers pension contributions from the admitted bodies have not been received into the County Fund bank account within 19 days following the applicable month end. These represent a breach of the 19 day rule. Management should remind the admitted bodies of their responsibilities to ensure payments are received by the required date. Management should issue reminders to the bodies and monitor late payments from these bodies.	All contributions are monitored and any late payments are chased. All cheque payments are chased on the 19th or as soon as possible after if they haven't been received. Unfortunately, with BACS payments these are not immediately coded on-line by the cash office as they wait for the paper statement before coding. This can lead to a delay of approximately one week before we are notified of receipt. However, if no contributions analysis has been received for BACS payment by the 19th, they are assumed not to have been paid and are chased up. Mainly, the late payers are small schools who are not admitted bodies but part of Wiltshire County Council. For admitted bodies, we will be monitoring payments more closely for 2008-09 and sending out letters reminding them of their responsibilities if late payment occurs.	Head of Pensions

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Appendix 4: Accounts recommendations (continued)

Number	Risk	Issue and recommendation	Management response	Officer and due date
7	● *(two)*	**Pension scheme** The Pension Scheme Department could not provide accurate membership data that agreed to the Statement of Accounts. Inaccurate membership numbers make it harder for the Committee to ensure that contributions and benefits are being paid correctly and may impact on the future liability of the scheme. Membership numbers should be reconciled regularly. A listing of members to back up the totals should be maintained and regularly reviewed.	Accurate membership data is difficult to maintain in AXISe as reports run on different days for the same date, i.e. 31 March can provide differing results if any membership details have been processed in the corresponding period, i.e. an active has become deferred or a duplicate record set up in error has been deleted. It is agreed that a more regular check of the number of starters and leavers should be made against the membership totals to ensure movements seem reasonable but precise data cannot be achieved with the current database system.	Head of Pensions
8	● *(two)*	**Pension scheme** There is not separate bank account for the pension scheme. At present the County Fund bank account is used. We are aware that this is not a SORP requirement however, due to the change in legislation next year a bank account will be required to be set up. A bank account for the pension scheme should be set up and controls should be implemented.	This is agreed and with the implementation of SAP the BMP project is looking to set up a separate bank account for the Wiltshire Pension Fund. This should be implemented for the 2009-10 Financial Year.	Head of Pensions

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Appendix 5: Audit reports

A summary of the reports issued in the year to date is set out below.

Report	Date issued
2007/08 Audit & Inspection Plan	June 2007
Interim audit report	June 2008
2008/09 Audit & Inspection Plan	June 2008
Business Continuity Planning Review	April 2008
Report to those charged with governance	September 2008

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Appendix 6: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

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Appendix 6: Declaration of independence and objectivity (continued)

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Wiltshire County Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and Wiltshire County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

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Appendix 7: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Wiltshire County Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Wiltshire County Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We believe the effects of uncorrected financial statement misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

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Appendix 7: Draft management representation letter (continued)

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Final Accounts & Audit Committee on 30 September 2008.

Yours faithfully

[Name of Executive Director signing letter on behalf of Council]

On behalf of the Council

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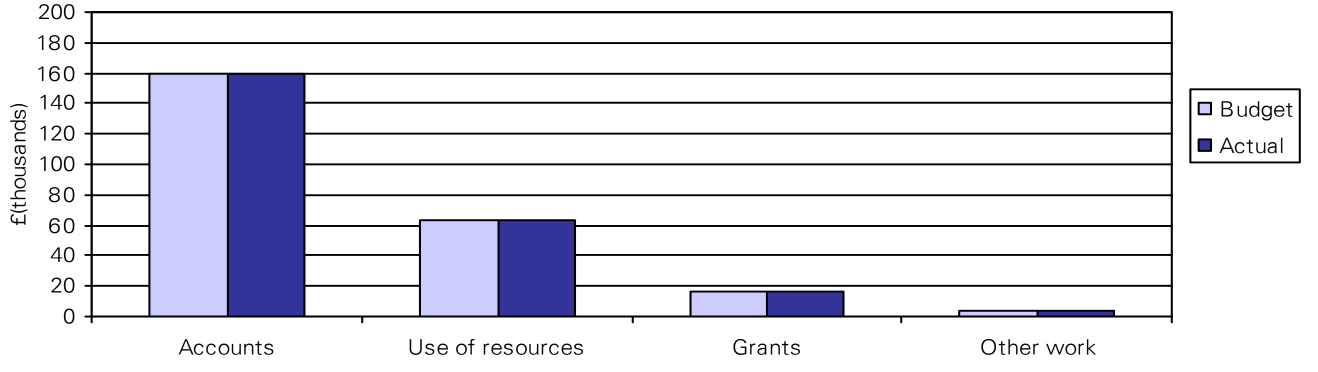
Appendix 8: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2007/08 agreed external audit fee:

External audit fee for 2007/08



The Code of Audit Practice audit fee, representing the accounts and use of resources work, has been maintained within the budgeted amount of £226,612.

The grants fee remains an estimated amount as this work will not be completed until later this year.

The 'other' amount was budgeted to include the work required on auditing the Council's Whole of Government Accounts returns and National Fraud Initiative.

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