



GOVERNMENT

Report to those charged with governance (ISA 260) 2009/10

Wiltshire Council

16 September 2010

AUDIT

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 partner to the Authority (telephone 0118 964 2269, email christopher.wilson@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (0161 236 4000, 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 are 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Executive summary

Scope of this report

This report summarises:

- the key issues identified during our audit of Wiltshire Council's ('the Authority's) financial statements for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2009/10*, presented to you in June 2010, which summarised our planning and interim audit work.

Financial Statements

The table below summarises the key findings from our work in relation to the financial statements audit. Section two of this document provides further details.

Critical accounting matters	<p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.</p> <p>There were also a couple of areas where the Authority has made significant adjustments to the accounts following further considerations made arising from the audit process.</p>	Audit differences	<p>Our audit has identified a total of six audit adjustments with a total gross value of £37.2m. However, there is no impact as a result of these adjustments on the General fund balance.</p> <p>We have included a full list of significant audit adjustments at Appendix E. All of these were adjusted by the Authority, with the exception of one disclosure adjustment of £0.5m in respect of reclassification as exceptional costs, which was not adjusted on the basis of immateriality.</p>
Accounts production and audit process	<p>We have noted a significant improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented the majority of the recommendations in our Interim report and ISA 260 Report 2008/09 relating to the financial statements, as reported to the Audit Committee in June, and is in the process of implementing the remaining items.</p>	Completion	<p>At the date of this report our audit of the financial statements is substantially complete, although we are still completing our audit work on:</p> <ul style="list-style-type: none"> -Internal recharges; -Cash flow statement; and - a few other balances. <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
		Proposed opinion	<p>We anticipate issuing an unqualified audit opinion for the 2009/10 Statement of Accounts. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>

We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix C.

Executive summary

Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

<p>Use of resources assessment</p>	<p>Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010. The Authority will therefore not receive scores in respect of the 2010 assessment.</p> <p>Key messages arising from our assessment are:</p> <ul style="list-style-type: none"> • Overall, there are sufficient procedures in place for Managing Finances, with significant improvements noted in the financial statements process. However, improvements could be made in cost / performance benchmarking, fees and charges strategy and debt monitoring. • The Council continues to actively manage its resources with a significant programme in place to rationalise its assets, but areas of improvement can still be made in workforce planning arrangements and obtaining internal and external feedback on staffing matters. Procedures for Governing the Business remain robust overall, and improvements have been made in Data Security.
<p>Specific use of resources risks</p>	<p>We have considered the specific use of resources risks we set out in our <i>Audit Fee Letter 2009/10</i>:</p> <ul style="list-style-type: none"> • We have completed work surrounding the risks over accounting for PFI schemes under IFRS and have deemed the accounting treatment to be appropriate. • We also reported our findings on the Migration of data onto SAP in June 2010. • Our work on benefits realisation phase three is ongoing, and we will report our findings in due course.

Proposed opinion

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

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 to be brought to the attention of the public. In addition we have a range of other powers under the 1998 Act.

This year we have again received correspondence from a number of local electors, which we considered but none have required any significant audit response. We also received a formal objection to the Council's accounts relating to the lawfulness of expenditure incurred through investigating Members' Standards complaints that the Council inherited from one of the demised district councils.

The objector asked that we issue a public interest report and apply to the court to have the items of account declared unlawful (under sections 11 and 17 of the 1998 Act). We considered the issues raised carefully but were not persuaded that the Council had acted unlawfully. We therefore declined the objector's request to issue either a public interest report or a declaration.

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.

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

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

We have completed our work on the 2009/10 financial statements.

We anticipate issuing an unqualified audit opinion on 30 September 2010.

The Authority’s and our responsibilities

Wiltshire Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of 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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission’s Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

Introduction

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our *Interim Audit Report 2009/10* issued in June.

This report focuses on the final two stages: substantive procedures and completion.

Substantive Procedures

Our final accounts visit on site took place between July and September. During these months, we carried out the following work:

- | | |
|------------------------|---|
| Substantive Procedures | <ul style="list-style-type: none"> ● Planning and performing substantive audit procedures ● Concluding on critical accounting matters ● Identifying audit adjustments ● Reviewing the Annual Governance Statement |
|------------------------|---|

We have substantially completed our audit of the Authority’s 2009/10 financial statements. A small number of areas are still under review at the date of this report, but should be concluded by the time of the Audit Committee:

- Internal recharges;
- Cash flow statement; and
- A few other balances.

Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

- | | |
|------------|---|
| Completion | <ul style="list-style-type: none"> ● Declaring our independence and objectivity ● Obtaining management representations ● Reporting matters of governance interest ● Forming our audit opinion |
|------------|---|

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Accounts production and audit process

We have noted a significant improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

The Authority has implemented the majority of the recommendations in our Interim report and ISA 260 Report 2008/09 relating to the financial statements, as reported to the Audit Committee in June, and are in the process of implementing the remaining items.

The wording of your Annual Governance Statement accords with our understanding.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority’s accounting practices and financial reporting.

We also assessed the Authority’s process for preparing the accounts and its support for an efficient audit.

Element	Commentary
Accounting practices and financial reporting	<p>Although there have been some significant weaknesses in key internal control areas, the Authority has made efforts to resolve these matters, as reported to the Audit Committee in June.</p> <p>We recognise that this is an on-going process and that there is still scope to improve this further going forward as procedures are developed, implemented and revised, as necessary.</p> <p>We have set out progress against recommendations we have previously raised in Appendix D.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts in June. We did note, however, that the accounts approved by the Audit Committee did not yet contain the required disclosures in respect of senior staff remuneration. These have now been included in the accounts.</p> <p>As a result of our audit work the Authority made several material adjustments to the Income & Expenditure account and the Balance Sheet following the Audit Committee meeting when the draft financial statements were approved. There is no net impact, however, on either the Income and expenditure account or the general fund balance.</p> <p>There were also a number of amendments of a presentational nature which have been made.</p> <p>However, despite these issues, we are pleased to report that the Authority has made considerable improvements to its financial reporting arrangements, following last year’s significant issues.</p>

Element	Commentary
Quality of supporting working papers	<p>Our Accounts Audit Protocol, which we issued in May, and discussed with the Chief Financial Officer, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was largely of a good quality and met the standards specified in our Accounts Audit Protocol.</p>
Response to audit queries	<p>The vast majority of additional audit queries were resolved in a timely manner. We also appreciate the efforts made by officers to resolve the increased volume of requests that we made due to the increased substantive testing required as a result of our inability to rely, as planned, on many of the Council’s financial controls.</p>

Prior year recommendations

In our *Interim Audit Report 2009/10* we commented on the Authority’s progress in addressing the recommendations in our *ISA 260 Report 2008/09*.

The Authority has implemented the majority of the recommendations in our Interim report and ISA 260 Report 2008/09 relating to the financial statements, as reported to the Audit Committee in June, and is in the process of implementing the remaining items.

Appendix D provides further details.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

We did, however, raise concerns over the migration of data onto the new SAP system and the separation of a number of controls on this new system.




Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in February, we identified the key risks affecting the Authority's 2009/10 financial statements.
- In our *Interim Audit Report 2009/10* we commented on the Authority's progress in addressing these key risks. We also undertook specific work on data migration to the new SAP system.

- We have now completed our testing of these areas and set out our final evaluation following our substantive work.



Key findings

- The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
 <p>Year end close-down</p>	<p>A large number of material errors and omissions were identified in the Council's 2008/09 financial statements submitted for audit, caused in part by weaknesses in the resourcing and planning of the accounts closedown process.</p>	<p>There were a few material adjustments to the 2009/10 Statement of Accounts, and there were also several presentational adjustments required to the notes to the accounts.</p> <p>We acknowledge, however, that these material adjustments have mostly arisen in more complex accounting areas.</p> <p>Overall, the closedown procedures were well managed, and the level of amendments required compared to the prior year was considerably less.</p>
 <p>Fixed asset accounting</p>	<p>Specific areas of concern were noted in 2008/09 regarding the Council's controls over its fixed assets, including monitoring and recording of assets to ensure accounting records reflect the true position, accounting for revaluations and impairment, the timing of fixed asset processes and the correct identification of the capital / revenue expenditure split.</p>	<p>The Authority implemented procedures to address the concerns detailed in our <i>ISA 260 report 2008/09</i> and we have not identified the same concerns as part of this year's audit . This reflects positively on the effort and attention dedicated by the Council into improving fixed asset accounting. This remains an area to keep on top of, but clear improvements have been seen,</p>
 <p>SAP</p>	<p>There is a risk that the data migrated onto the new SAP system from the old financial systems will not be accurate or complete, and that opening balances may be misstated.</p>	<p>We found some concerns over the migration of data onto the new SAP system. This was detailed in our report on this matter submitted to the Audit Committee in June in which we concluded there was a divergence in the quality of management of the data migration, and in a number of areas the necessary audit assurance on the migration of data into the new SAP system was not provided. We also identified issues around the separation of some key financial controls, as noted in our <i>Interim Audit Report</i>.</p> <p>As a result of these findings, we had to significantly adapt our audit approach to include significant additional substantive work.</p>

Critical accounting matters (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Key audit risk	Issue	Findings
 <p>Transition to One Council</p>	<p>There is a risk that the key controls over systems such as Council tax, NNDR, and the Housing Revenue account which have inherited from the demised district councils may not be operating appropriately.</p> <p>There is also a risk that these systems may not be appropriately reconciled to the General Ledger and that the disclosures within the accounts are not sufficient and accurate.</p>	<p>As reported in our interim report we performed controls testing at the hubs on key systems. We found some minor control deficiencies (as reported in our <i>Interim Audit Report</i>), although largely we found the controls over these systems to be working appropriately.</p> <p>We also performed substantive work over these systems at year end, and these have not identified any notable issues.</p>
 <p>PFI</p>	<p>Wiltshire Council has inherited a Private Finance Initiative (PFI) funded office and three schools from its predecessor bodies and a planned housing scheme from one of the demising district councils.</p> <p>These must be accounted for in line with the CIPFA SORP 2009. The SORP adopts IFRS PFI accounting for the first time in 2009 and may result in some assets being accounted for in the Council's balance sheet for the first time.</p> <p>We will review the Council's current PFI contracts and consider the financial models that have been used to account for these arrangements to ensure that balances have been correctly disclosed in the financial statements.</p>	<p>We have reviewed the Authority's accounting treatment of the PFI schemes, and obtained all the required information and explanations to support the treatment applied.</p>
 <p>Valuation of Investments</p>	<p>The Council's investment management strategy and controls should be compliant with the CIPFA Prudential Code.</p> <p>CIPFA has also published revised guidance on the accounting for Icelandic bank investments and these should be considered when determining the valuation of these assets.</p>	<p>We have reviewed the treatment of Icelandic bank investments against the latest CIPFA guidance and not identified any issues over the current valuation of the investments.</p>

Critical accounting matters (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Key accounting matters identified during final audit

In addition to the key audit risks identified within the *Financial Statements Audit Plan 2009/10* the findings on which are presented on the previous two pages, we also identified several other matters that have also been deemed key accounting areas:

Additional key audit findings	Issue	Findings
<p>Disposal of a fixed asset on a Foundation school</p>	<p>During 2009/10 the Council received cash proceeds from a Foundation school within Wiltshire arising from the disposal of a fixed asset. This was originally treated in the accounts approved by the Audit Committee in June as income received.</p> <p>Additionally, a replacement asset is being constructed by the school. This has been accounted for as expenditure within the Council's accounts.</p> <p>However, the fixed assets of Foundation schools are not under the control of the Authority, and therefore the fixed assets of the school are not accounted for on the Council's balance sheet under the SORP.</p>	<p>An audit adjustment was made in respect of these transactions to reflect the substance of the agency relationship between the Council and the school in this particular case.</p> <p>Consequently both the income and expenditure have been reversed out of the accounts. This is shown in the Corrected Audit differences in Appendix E.</p> <p>This issue was originally raised in the <i>2008/09 ISA 260 report</i> and the adjustment applied in 2009/10 is consistent with this.</p>
<p>PFI schemes for Foundation school</p>	<p>One of the Council's PFI schemes recognised on the balance sheet in 2009/10, following the changes to the SORP in the current year, relates to a separate Foundation school.</p> <p>The asset and liability for this item have been recognised by the Council.</p>	<p>The treatment applied was considered, and found to be appropriate as the PFI obligations remain with the Council, who continue to make unitary payments on behalf of the school.</p> <p>At the conclusion of the PFI scheme the residual value of the asset within the accounts will transfer to the school.</p>

Residual Controls testing - Key findings over procedures for Capital Accounting

- In our *Interim Audit Report 2009/10* it was noted that due to the timing of fixed asset control procedures we had been unable at that point to assess the effectiveness of revised procedures for Capital Accounting. At year end we have substantively tested these balances and not identified any significant outstanding issues, other than one point on impairment procedures as detailed in Appendix C.

Audit differences

Our audit identified a total of six audit adjustments with a total gross value of £37.2m.

There is no impact as a result of these adjustments on the general fund account as at 31 March 2010.

Work completed

In accordance with ISA 260 we are required to report 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.

Key findings

Our audit identified a total of six audit adjustments with a total gross value of £37.2m. Of these, five have been adjusted by management and one item has not been adjusted as it does not have a material effect on the financial statements.

The net impact on the General Fund as at 31 March 2010 as a result of audit adjustments is nil.

Of the audit adjustments we have identified, the most significant in monetary value are as follows:

- De-recognition of a transaction relating to a Foundation school:
Dr Income £11.9m, Cr Net Cost of Services Expenditure £11.9m
- Recognition of an asset disposal:
Dr Loss on disposal of fixed assets £8.3m, Cr Disposals £8.3m, Dr CAA £7.9m, Dr Revaluation Reserve £0.4m, Cr SMGFB £8.3m.

We have provided a summary of significant audit differences in Appendix E. It is our understanding that these have been adjusted in the final version of the financial statements, except for the one uncorrected item which has not been adjusted by management as it does not have a material effect on the financial statements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2009: A Statement of Recommended Practice* ('SORP'). We understand that the Authority will be addressing these where

significant.

The tables below illustrates the total impact of audit differences on the Authority's income and expenditure account for the year and balance sheet as at 31 March 2010.

Income & expenditure 2009/10	Pre-audit £m	Post-audit £m
Net cost of services	420.1	420.1
Net Other operating (income) & expenditure	(306.0)	(297.7)
Deficit for the year	114.1	122.4
Net additional debits/ (credits)	(114.5)	(122.8)
(Increase)/ decrease in General Fund	(0.4)	(0.4)
Balance Sheet as at 31 March 2010	Pre-audit £m	Post-audit £m
Fixed assets	1,147.3	1,139.0
Other long term assets	7.6	7.6
Current assets	144.4	147.4
Current liabilities	(111.9)	(116.0)
Long term liabilities	(974.9)	(973.9)
Net worth	212.5	204.1
General Fund	(13.8)	(13.8)
Other reserves	(198.7)	(190.3)
Total reserves	(212.5)	(204.1)

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

There has been a high number of weaknesses surrounding the internal control environment during 2009/10.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Wiltshire Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its members 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 F in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing, completeness of fixed assets, school bank reconciliations, and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix G. We have provided a draft to the Chief Financial Officer. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 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.

We reported in our *Interim Audit Report 2009/10* presented to the Audit Committee in June, that as part of our interim controls work we identified a very large number of issues surrounding the internal control environment, of which many have been highlighted as high priority. This led to us concluding that overall the organisational control environment had not been fully effective in the year.

Management has been making efforts to address the concerns we identified, as reported to the Audit Committee in June. We will continue to monitor the status of outstanding issues and have set out the latest position in Appendix D.

We have also undertaken additional substantive work as part of our audit in response to these audit risks.

Opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A

Introduction

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

The Authority's and our responsibilities

The Authority 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.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion. We provided some commentary on our findings within our *Interim Audit Report 2009/10*.

We also identified a number of specific risks impacting on our 2009/10 value for money conclusion and undertook targeted work on these areas.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This represents an improvement on the prior year when the VFM conclusion was qualified due to weaknesses in the Council's financial reporting arrangements.

Our proposed conclusion is set out in Appendix B.

VFM criterion	Met
Managing finances	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
Governing the business	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
Managing resources	
Use of natural resources	✓
Strategic asset management	✓
Workforce planning	✓

The following pages include further details on the use of resources assessment and specific risk-based work.

Use of resources assessment

The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.

The Authority will therefore not receive scores in respect of the 2010 assessment.

There are sufficient procedures in place for Managing Finances, with significant improvements noted in the financial statements process. However, improvements could be made in cost / performance benchmarking, fees and charges strategy and debt monitoring.


Work completed

- We completed work on the 2010 use of resources assessment between March and July 2010.
- Our work involved review of the Authority’s self-assessment, discussions with key officers for all areas, and review of relevant internal and external documentation.
- We also completed additional work during July where we considered this to be still relevant to our VFM conclusion. This included our data quality spot checks.

Key findings

- Even though the 2010 UoR assessment was substantially completed, we have been advised by the Audit Commission not to share indicative scores with audited bodies.



- We have therefore only included general messages in this report about the Authority’s performance in each area. In particular, we have highlighted the key issues which we consider should be brought to the attention of those charged with governance. More detailed feedback has been provided to the Corporate Director of Resources in April.
- Below we set out our findings in respect of each area.

Theme	Summary findings
 <p>Managing finances</p>	<p>There have been significant improvements in the annual financial statements process, engaging with stakeholders in the budget setting process and encouraging competition to improve efficiency.</p> <p>However, we have not been provided with evidence of continued cost / performance data to review VfM, or demonstrating benchmarking of unit costs. There is no strategic fees and charges policy, nor evidence of debt monitoring. Furthermore, the SAP implementation has led to significant difficulties which mean that flexible reporting tools have not been available throughout the year and budget holders have not had access to real-time information. However, these areas represent improvement opportunities and do not undermine our ability to issue an unqualified VFM conclusion.</p>

Use of resources assessment (continued)

Procedures for Governing the Business remain robust areas, and improvements have been made in Data Security.

The Council continues to actively manage its resources with a significant programme in place to rationalise its assets, but areas of improvement can still be made in workforce planning arrangements and obtaining internal and external feedback on staffing matters.

Theme	Summary of progress and findings
 <p>Governing the business</p>	<p>Overall, there have been some specific improvements in several areas during 2009/10. In particular, there has been an increased importance and profile given to data security, and there have not been any high profile data security breaches during the current year, unlike previously. The Council is continuing to monitor this area, and make improvements where areas of weakness are identified.</p> <p>There is a Counter Fraud and Corruption Strategy in place, however as noted in the prior year there could be improvements over communicating this and ensuring compliance with partners.</p> <p>Governance procedures in place remain robust and there have been improvements in that there is also now a fully independent Audit Committee.</p>
 <p>Managing resources</p>	<p>Natural resources has not been required to be assessed in the current year.</p> <p>Asset management processes appear to be robust and the Council has an ambitious programme in place with the Workplace Transformation Programme both in its scope and anticipated future benefits. However, further improvements can still be made in the areas of partnership working and also in ensuring that records from the inherited districts are properly maintained.</p> <p>Workforce Planning is being assessed for the first time in 2009/10. The Council has performed well in this area by successfully managing to redeploy many staff following the move to One Council. However improvements can be made through undertaking detailed succession and workforce planning across all departments, and by collating and evaluating internal data from employees on their morale, and obtaining feedback externally from local communities on their treatment from Council staff.</p>

Specific use of resources risks

We have considered the specific use of resources risks we first set out in our *Audit Fee Letter 2009/10*.

Our work on benefits realisation is ongoing, and we will report our findings in due course.

The SAP data migration review identified a number of issues and weaknesses.




We did not identify any issues with the appropriateness of the accounting treatment being applied for PFI schemes.

Work completed

- Our initial risk assessment was included in our *Audit Fee Letter 2009/10* and we set out our preliminary findings in respect of these risks in our *Interim Audit Report 2009/10*.
- We issued a separate report to the Authority which reported our findings from the SAP date migration review. This was discussed at the Audit Committee in June.

Key findings

- We have completed our work on these risk areas and summarise our findings below, together with any implications for our VFM conclusion.

VFM risk	Relevance to VFM conclusion	Findings
 <p>Benefits realisation</p>	<ul style="list-style-type: none"> • Managing Finances • Managing Resources 	Our work on benefits realisation is ongoing, and we will report our findings in due course. There are no issues arising so far that have an impact on our VFM conclusion.
 <p>SAP data migration</p>	<ul style="list-style-type: none"> • Managing Finances • Internal Control 	Our review identified a number of issues with both the management of this process and the transfer of specific balances to the new system. We have summarised the findings from this review in a separate audit report presented to the Audit Committee in June, which highlighted these key issues and made a number of recommendations.
 <p>PFI</p>	<ul style="list-style-type: none"> • Managing Finances 	We have reviewed the Council's accounting treatment of schemes being accounted for under IFRS from 2009/10 and have found the accounting treatment to be appropriate.

Other projects

- Although not part of our VFM conclusion or accounts audit, our IT advisory specialists are also performing a post implementation review of the new SAP system. This work is currently being undertaken and the findings will be reported in due course.

Appendix A: Proposed Opinion on the Financial Statements

Our opinion states whether the accounting statements and related notes give a true and fair view of the financial position of the Authority and its income and expenditure for the year.

We define what mean by 'accounting statements'.

Independent auditors' report to the Members of Wiltshire Council

Opinion on the accounting statements

We have audited the accounting statements and related notes of Wiltshire Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Wiltshire 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 Council, as a body, those matters we are required to state to them in an auditors' 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 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 auditors

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements 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 accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority and its income and expenditure for the 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 financial statements. 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.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Appendix A: Proposed Opinion on the Financial Statements (continued)

Our proposed opinion is unqualified.

There are no expected modifications to the auditors' report.

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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements and related notes.

Opinion

In our opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Appendix A: Proposed Opinion on the Financial Statements (continued)

We issue a separate opinion on the pension fund accounts. This states whether the pension fund accounts give a true and fair view of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities.

The pension fund accounts form part of the Authority's Statement of Accounts but are subject to a separate audit and separate ISA 260 report.

Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The 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 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 Council, as a body, those matters we are required to state to them in an auditors' 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 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 auditors

The Chief Financial Officer's responsibilities for preparing the pension fund accounts in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the 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 pension fund accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of 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 also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. 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.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Appendix A: Proposed Opinion on the Financial Statements (continued)

Our proposed opinion on the pension fund accounts is also unqualified.

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 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 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 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 pension fund accounts and related notes.

Opinion

In our opinion the pension fund accounts and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Certificate

I certify that I 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.

Appendix B: Proposed use of resources conclusion

Our proposed use of resources conclusion is unqualified.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

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.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied 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.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Wiltshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Certificate

I certify that I 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.

Chris Wilson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

100 Temple Street

Bristol

BS1 6AG

30 September 2010

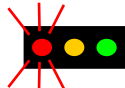

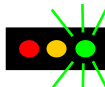
Appendix C: Recommendations

We have identified seven recommendations during our final audit.

Of these, three are considered to be of a high priority.

Procedures for School Bank reconciliations during the year end closedown process need to be reviewed, amended and communicated to the schools.

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p>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.</p> 	<p>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.</p> 	<p>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.</p> 

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	1	<p>School Bank reconciliations</p> <p>The closedown procedures for the school bank reconciliations were incorrect as they did not apply a strict 31 March cut-off. This resulted in April 2010 transactions being posted into the 2009/10 financial year which should have been omitted. While this did not impact upon the Income and Expenditure account or the General Fund balance, it did impact on balance sheet accounts.</p> <p>Given the number of schools controlled by the Council there is a risk that if left unaddressed this could lead to a significant misstatement.</p> <p>Recommendation</p> <p>The Central Finance department and the department for Children and Education should work closely together to review the procedures for closedown of the schools' ledgers.</p> <p>These revisions should be clearly communicated to all the schools and appropriate quality control procedures implemented to ensure the bank reconciliations and ledger balances are accurate.</p>	<p>A new procedure for closedown of schools ledgers will be developed and issued to all schools to reflect the strict 31 March cut off to be implemented for closedown 2010/2011.</p> <p>M Tiller / E Williams - January 2011</p>

Appendix C: Recommendations (continued)

The bad debt provision policy still requires consideration.	No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
<p>Procedures to ensure the completeness of fixed assets should be planned for 2010/11.</p> <p>The procedures for performing internal recharges should be reviewed, amended, and communicated to relevant staff.</p>	2	1	<p>Bad debt provision</p> <p>The bad debt provision for the year was not calculated based on a clearly defined policy.</p> <p>While we understand that procedures for debt management are being reviewed, the actual figure used for the current year provision should be supported, or based on a clear rationale.</p> <p>Recommendation</p> <p>The procedures for debt management should be reviewed and implemented so that the bad debt provision is based on clear and approved assumptions.</p>	<p>Debt Management procedures are being reviewed and will be taken to Cabinet in October 2010. Bad debt provision is currently based on defined procedures for most discrete areas (Council Tax/ NNDR/ Housing Rents) and will be reviewed for the rest of the debt.</p> <p>M Tiller - October 2010</p>
	3	1	<p>Completeness of fixed assets</p> <p>Since the move to One Council no specific work has been undertaken to ensure that the Council's recorded asset base is complete.</p> <p>While we understand that the fixed assets inherited from the old Districts has been reconciled to the District's prior year Statements of Accounts, there remains a risk that fixed assets could be understated without a undertaking procedures to verify this.</p> <p>Recommendation</p> <p>The Council is proposing undertaking a full revaluation of all fixed assets in 2010/11. This should also incorporate procedures to ensure that assets that may not already be on its Fixed Asset Register are also identified and valued.</p>	<p>A review of fixed assets will be undertaken in 2010/2011 and the Council will work with the new valuers to provide information for closedown.</p> <p>N Ward – March 2011</p>
	4	2	<p>Internal recharges</p> <p>Some internal recharges between within Council departments have been accounted for in such as way as to equally overstate income and expenditure.</p> <p>Recommendation</p> <p>The procedures for performing internal recharges should be reviewed, and new guidance communicated to departments.</p>	<p>Internal recharges are being reviewed and new procedures will be developed for financial year 2010/2011.</p> <p>A Brown – March 2011</p>

Appendix C: Recommendations (continued)

Impairment procedures should be reviewed further.

Suspense accounts should be cleared down to nil as part of the year end closedown processes.

The school's payroll should be regularly reconciled to the general ledger.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
5	2	<p>Impairment procedures</p> <p>While there have been some improvements to impairment procedures, there is still scope for further improvements to ensure that all categories of asset with a higher risk of impairment have been considered.</p> <p>Recommendation</p> <p>The scope of the impairment review should be increased. This can be achieved by close working between the Central Finance and Estates departments.</p>	<p>The scope of the impairment review will continue to be increased. Work will be undertaken between Finance, Property and external valuers for closedown 2010/2011.</p> <p>N Ward/ M Tiller – March 2011</p>
6	2	<p>Clearance of Suspense accounts</p> <p>An audit adjustment was required as suspense accounts were not fully cleared down at year end.</p> <p>Recommendation</p> <p>Central Finance should ensure that all suspense account balances are regularly monitored, and that at year end closedown adjustments are required to clear the balances down to nil.</p>	<p>A few suspense accounts were not originally cleared at the year end 2009/2010. New procedures will be put in place for year end 2010/2011.</p> <p>M Tiller - March 2011</p>
7	2	<p>Reconciliation of School's payroll to the General ledger</p> <p>In 2009/10 the Cyborg payroll system which processed the school's payroll was not being regularly reconciled to the General ledger system.</p> <p>Recommendation</p> <p>We understand that the Cyborg system has not been used since March to process the payroll, with SAP being used instead as part of a planned change.</p> <p>However, management should still ensure that adequate reconciliations are performed on all payroll runs and reviewed on a timely basis within SAP.</p>	<p>Procedures around school payroll are being reviewed and new procedures will be put in place.</p> <p>M Tiller/ L Creedy – November 2010</p>

Appendix D: Follow-up of prior year & interim recommendations

The Authority has not implemented all of the recommendations in our ISA 260 report 2008/09, and Interim Audit report 2009/10.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and our *Interim Audit Report 2009/10*. We have re-iterated any recommendations that are still outstanding.

Number of recommendations that were:		
Included in original <i>ISA 260 report 2008/09</i>	Implemented in year or superseded	Remain outstanding (re-iterated as current year recommendation 5 – pg 21)
18	17	1

Number of recommendations that were:		
High priority items Included in <i>Interim Audit report 2009/10</i>	Implemented in year or superseded	Remain outstanding (re-iterated below)
18	16	2

No.	Priority	Recommendation	Officer Responsible and Due Date	Status at September 2010
1	1	<p>Manual raising of Purchase Orders and lack of authorisation Purchase orders are not raised for all spend using the SRM purchasing system. Invoices are being posted to the system manually and some without being appropriately authorised. This leads to the risk that fraudulent invoices could be paid or invoices paid twice in error.</p> <p>Recommendation All expenditure should be entered on to the SRM procurement system. A search for duplicate invoices should also be performed as currently the system only checks SRM invoices against all other SRM invoices. (And likewise for non-SRM invoices.)</p>	<p>Caroline Bee (in liaison with SST) March 2011.</p>	<p>Work has begun on the review of procurement processes, with the first workshops to begin in August. Initial categories of spend to be reviewed will be utilities, legal services and design & print. The workshops will review the procure to pay processes by category of spend and whilst it is not always practical that all items of spend will go through SRM, a key outcome is to ensure that all agreed categories of spend are entered through the SRM system and users of the system are aware of the processes.</p> <p>Authorised signatory list is now in place and all invoices entered outside SRM are checked against the list by the AP team. Weekly duplicate invoice check report and SAP duplicate warnings being actioned by the AP team.</p>

Appendix D: Follow-up of prior year & interim recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 report 2008/09* and Interim Audit report 2009/10.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Priority	Recommendation	Officer Responsible and Due Date	Status at September 2010
2	1	<p>No debt management policy in place There is no debt management policy in place and therefore no formal framework under which the function can operate. Without a formal policy there is a risk that overdue debts are not appropriately chased leading to a bad debt risk.</p> <p>Recommendation There should be a formal debt management policy in place covering how debts should be identified and managed.</p>	<p>Matthew Tiller October 2010</p>	<p>A debt management policy has been drafted and will be incorporated into the financial controls protocol.</p>

Appendix E: Audit differences

There are five audit differences which have been adjusted. Two of these were of a material value.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Wiltshire Council's financial statements for the year ended 31 March 2010.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Dr Income £11.9m Cr Expenditure (£11.9m)					Reversal of transactions relating to sale of a fixed asset and construction of a replacement asset at a foundation school where the Council is acting as an agency party.
Dr Expenditure £8.3m	Cr SMGFB (£8.3m)	Cr Fixed asset disposals (£8.3m)		Dr CAA £7.9m Dr Revaluation Reserve £0.4m	Treatment as a disposal of a transfer to assets to Salisbury City Council as part of the move to One Council.
		Dr Cash £5.5m Dr VAT £0.8m Dr Sundry debtors £1.5m Dr Accrued income £0.1m Dr Payments in advance £1.4m	Cr Sundry creditors (£3.8m) Cr Receipts in advance (£4.7m) Cr Other creditors (£0.8m)		Reclassification of consolidated schools' balances to their relevant balance sheet caption rather than being accounted for as cash.

Appendix E: Audit differences (continued)

There are five audit differences which have been adjusted. Two of these were of a material value.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
			Dr Long term liabilities £1.0m Cr Current liabilities (£1.0m)		Treatment of accrued interest on loans as a current liability rather than as a long term liability.
		Dr Cash £2.4m Cr Trade debtors (£6.2m)	Dr Suspense accounts £3.8m		Entries required to clear out balances that were present within holding accounts at 31 March to their appropriate balance sheet caption.
Dr £8.3m	Cr (£8.3m)	Cr (£2.8m)	Cr (£5.5m)	Dr £8.3m	Total impact of adjustments

Appendix E: Audit differences (continued)

There is one uncorrected audit difference.

We are satisfied that this does not have an impact on our audit opinion if it is uncorrected, although the Audit Committee should review this to confirm it is satisfied for no adjustment to be made.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Wiltshire Council's financial statements for the year ended 31 March 2010.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Dr Exceptional costs £0.5m					The element of redundancy pay paid to teachers which was over and above what they would have received had the terms of the redundancy been greater due to the move to a Unitary Council.
Cr Net Cost of Services Expenditure £0.5m					
-	-	-	-	-	Total impact of audit differences

Appendix F: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

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 Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that 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 *Standing guidance for local government auditors* (‘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.

Appendix F: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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.

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 Council for the financial year ending 31 March 2010, we would like to bring to your attention three engagements with the Council that KPMG have performed in addition to being the Council's auditors:

1) Prior to KPMG's appointment as the Council's auditors, the firm's VAT advisory practice had been engaged by both Salisbury District Council and West Wiltshire Council to assist in the recovery of overpaid VAT. The work involved assisting each council in identifying areas where VAT has been overpaid, preparing claims for repayment and subsequent discussions and negotiations with HMRC on repayments which are now due to Wiltshire. The fees in relation to this are wholly contingent on success based on amounts repaid by HMRC. Of seven claims submitted by the Council to HMRC, one has been successful while the outcome of the other six is pending.

To address this independence and objectivity risk the following safeguards have been in place:

There is complete separation internally within KPMG between the VAT advisory team and the audit team for the Council.

2) During the year we have been engaged to assist in the appraisal of strategic options for the provisions of leisure service. This work has now been completed and the fee in relation to this was £16,000 + VAT.

To address this independence and objectivity risk the following safeguards have been in place:

Appendix F: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

There is complete separation internally within KPMG between the advisory team that performed this engagement and the audit team for the Council.

3) Our IT Advisory department have been engaged to perform a post implementation review of the SAP implementation. The fee for this engagement is £35,000 + VAT.

To address this independence and objectivity risk the following safeguards have been in place:

There is complete separation internally within KPMG between the IT advisory team and the audit team for the Council. The work involves working with council employees to identify key outcomes from the implementation.

We confirm that there were no relationships between KPMG LLP and the Wiltshire Council, its members 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.

Appendix G: Draft management representation letter

We ask you 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.

The wording for these representations is standard and prescribed by auditing standards.

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 Authority, the following representations given to you in connection with your audit of the financial statements for Wiltshire Council for the year ended 31 March 2010.

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 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 Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority 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 Authority 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 2010.

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 Authority 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 Authority'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.

Appendix G: Draft management representation letter (continued)

Specific assurances are sought over the:

- completeness of fixed asset records; and

- value of cash, asset and liabilities held in respect of schools.

We require a signed copy of your management representations before we issue our audit opinion.

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 Authority 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.

With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- the Fixed Asset Register and the Statement of Accounts represent an accurate reflection of the fixed assets held by the Council at 31 March 2010, and there are no material omissions or errors either individually or in aggregate that would cause the Fixed Asset Register to be incomplete; and
- the bank reconciliations of the Council's schools have been reviewed and we confirm that the value of cash, assets and liabilities reported in the general ledger and Statement of Accounts in respect of Schools do not contain any material misstatement either individually or in aggregate.

We consider the effects of uncorrected financial statement mis-statements summarised in the accompanying schedule to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 Audit Committee on 30 September 2010.

Yours faithfully

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

On behalf of Wiltshire Council