KPMG
cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Wiltshire Council

July 2015

Contents

The contacts at KPMG in connection with this report are:

Darren Gilbert
Director
KPMG LLP (UK)

Tel: 0292 046 8205
Darren.gilbert@kpmg.co.uk

Tara Westcott
Senior Manager
KPMG LLP (UK)

Tel: 0117 905 4358
Tara.Westcott@kpmg.co.uk

Adam Bunting
Assistant Manager
KPMG LLP (UK)

Adam.bunting@kpmg.co.uk
Tel: 0117 905 4470

Duncan Laid
Manager – Pension Audit
KPMG LLP (UK)

Tel: 0117 905 4253
Duncan.laird@kpmg.co.uk

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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and its pension fund; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Wiltshire Council ('the Authority') in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in February 2015, set out the four stages of our financial statements audit process.

We previously reported on our work on the first two stages in our *Interim Audit Report 2014/15* issued in June 2015.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June 2015.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our *Interim Audit Report 2014/15*.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report/letter 2014/15*. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed on Page 11.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report.
Audit adjustments	Our audit has identified a total of four audit adjustments with a total gross value of £15.088 million for the 2014/15 financial statements. The impact of these adjustments is to: ■ Increase the deficit on provision of services for the 2014/15 year by £5.787 million; and ■ Decrease the net worth of the Authority as at 31 March 2015 by £5.787 million. Our audit adjustments also included one prior period adjustments necessitated by the change in accounting policy by following the new guidance in LAAP Bulletin 101 on the recognition of school assets. The impact of these adjustments is to: ■ Increase the net worth of the Authority as at 1 April 2013 and 31 March 2014 by £47.785 million and £46.739 million respectively; and ■ Increase the deficit on provision of services for the 2013/14 year by £1.045 million There was no impact on the General Fund balances as a result of any the adjustments identified. We have included a full list of material audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have raised one recommendation in relation to School Bank Reconciliations where three out of ten tested had immaterial errors and lacked consistency. Further details are summarised in Appendix 1.
Significant financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified the one significant financial statements audit risk in our *External Audit Plan 2014/15* issued in February 2015 in relation to accounting for Local Authority maintained schools. We have worked with officers throughout the year to discuss this significant risk and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this significant risk area.
Accounts production and audit process	We have noted consistency 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 quality of working papers provided to us by Finance and the Pension team were of a high standard and met the standards specified in our *Accounts Audit Protocol*. The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14* relating to the financial statements.

Headlines (continued)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements of both the Authority and the Pension Fund are substantially complete. The areas that remain are: ■ Audit of the Authority's Whole of Government Accounts pack; ■ Receipt of a revised copy of the Annual Governance Statement; ■ Review of Pension Fund Annual Report Narrative; ■ Finalising mandatory work in relation to pension liability disclosures; and ■ Review of schools accounting adjustments. Before we can issue our opinion we require a signed management representation letter for both the Authority and the Pension Fund. 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. In order to issue our Certificate for the year we will need to complete our work in relation to each of the matters set out above. We will also need to consider the impact of, and conclude any necessary work relating to, an incident of whistleblowing that is currently under investigation by the Authority's Corporate Fraud Team.
VFM conclusion and risk areas	We identified the following VFM risks in our *External Audit Plan 2014/15* issued in February 2015. ■ Achievement of Savings Plan; and ■ Estates Strategy. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 29 July 2015.

Financial Statements
Proposed opinion and audit differences

Our audit has identified a total of three audit adjustments.

There is no net impact of these adjustment on the general fund.

Proposed audit opinion

Subject to all outstanding matters being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts.

Audit differences

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.

The final materiality level (see Appendix 4 for more information on materiality) for this year's audit was set at £18.5 million. Audit differences below £0.9 million are not considered significant.

Our audit identified a total of four material audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements. There are no unadjusted audit differences.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2015.

There is no net impact on the General Fund as a result of audit adjustments. This is due to the adjustments being classification errors.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Movements on the General Fund 2014/15

£m	Pre-audit* (£'000)	Post-audit (£'000)	*Ref (App.3)*
Deficit on the provision of services (Excluding HRA)	32,668	38,455	*3*
Adjustments between accounting basis & funding basis under Regulations	(26,332)	(32,119)	*3*
Transfers to earmarked reserves	(6,618)	(6,618)	-
Increase in General Fund	**282**	**282**	

Balance Sheet as at 31 March 2015

£m	Pre-audit* (£'000)	Post-audit (£'000)	*Ref (App.3)*
Property, plant and equipment	1,011,467	1,005,680	*3*
Other long term assets	49,169	49,169	-
Current assets	119,797	117,930	*1*
Current liabilities	(112,893)	(111,026)	*1*
Long term liabilities	(1,047,549)	(1,047,549)	-
Net worth	**(19,991)**	**(14,204)**	
General Fund	(12,147)	(12,147)	-
Other usable reserves	(96,371)	(96,371)	-
Unusable reserves	88,527	94,314	*3*
Total reserves	**(19,991)**	**(14,204)**	

** Please note: In addition to the audit adjustments identified, the Authority identified a number of further changes required during the audit. These have been incorporated into the "Pre-audit" figures above.*

Financial Statements (continued)
Proposed opinion and audit differences (continued)

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 29 July 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a final materiality level of £25 million. Audit differences below £1.25 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code*. We understand that the Fund will be addressing these where significant.

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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant. These changes included adding commentary relating to the Authority's establishment of a Corporate Fraud Team which we consider to be a significant, and valuable, addition to the overall control framework.

Pension Fund Annual Report

We have not yet reviewed the *Pension Fund Annual Report* and as a result are yet to confirm that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the *Pension Fund Annual Report* at the same time as our opinion on the Statement of Accounts.

Financial Statements (continued)
Significant risks and key areas of audit focus

In our External Audit Plan 2014/15 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

This table sets out the outcome of our audit procedures.

In our External Audit Plan 2014/15 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.
The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (continued)
Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, presented to you in February 2015, we identified one area of audit focus .This is not considered as significant risks but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each of such areas of audit focus.

In our *External Audit Plan 2014/15*, presented to you in February 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 financial statements.

We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
Accounting for LA Maintained Schools	LAAP Bulletin 101 Accounting for School Assets used by Local Authority Maintained Schools issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.	The Authority completed an assessment of the recognition of school assets. We reviewed the treatment as per the LAAP Bulletin, where possible we obtained backing evidence to justify the assessment. The category which was flagged as requiring different treatment was Foundation Schools. All 15 required recognition on the Authority's Balance Sheet. Each other category of school was also assed but no change in treatment was necessary. We assessed the Authority's review for the categories which were not altered to ensure that it appear appropriate with no issues noted. Out of the 15 Foundation Schools we tested a sample of 5 to asses whether the Authority retained substantive rights over the assets and whether the future economic benefits / service potentially flow to the Authority. There was some difficulty obtaining backing documentation due to the length of time since being originally built. However KPMG agreed with that the Authority's assessment was appropriate. We verified the accounting treatment on the recognition of the schools with no material errors noted. As a result of the above, the Authority's net assets as at 1 April 2014 have increased by £47.8 million. We are currently completing our review of these adjustments.

Financial Statements (continued)
Significant risks and key areas of audit focus – Pension Fund (continued)

We have now completed our testing. The table sets out our detailed findings for each of such areas of audit focus.

Significant audit risk	Issue	Findings
LGPS reform	From 1 April 2014, all members of the Local Government Pension Scheme (LGPS) have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 2014/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected. This risk affects only the Fund.	The benefits system is now required to hold an increased volume of data to process the 'Career Average Revalued Earnings' (CARE) pensions calculation. The software provider has released updates to ensure the system is ready to account for the LGPS 2014 changes. KPMG performed a walkthrough of a new member's 'Career Average Revalued Earnings' (CARE) pension calculation, with reference to this guide, ensuring the system had the capacity to hold the required data. The design and implementation of the system changes were effective. KPMG also performed sample testing of pensioners' who had both pre and post 2014 service, and hence would have had CARE pension benefit accruing in 14/15. Of the 25 cases sampled no issues were identified with accuracy of the CARE calculations.

Financial Statements (continued)
Significant risks and key areas of audit focus – Pension Fund

We have now completed our testing. The table sets out our detailed findings for each of such areas of audit focus.

Areas of audit focus	Issue	Findings
	From 1 April 2015, the Pensions Regulator will be responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. The pension scheme must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding. This risk affects only the Fund.	Wiltshire Council as scheme manager of Wiltshire Pension Fund approved the Terms of Reference for the establishment of its Pension Board at its meeting on 24 February 2015. The Pension Board will sit alongside the Wiltshire Pension Fund Committee in an oversight role, to assist by reviewing the governance arrangements of the Fund and ensuring policies and procedures are correctly implemented and followed. As per the Public Service Pensions Act 2013 pension boards need to have an equal number of employer representatives and member representatives. The Board will consist of: ▪ 3 scheme member representatives, ▪ 3 employer representatives, and ▪ 1 non-voting Independent Chair Howard Pearce, the Former Head of the Environment Agency Pension Fund, will serve as the Independent Chair of the Board. All other positions have now been filled. The first meeting scheduled for the Local Pensions Board (LPB) has been set for 16th July 2015. The new representatives are expected to attend a training day on 2nd July 2015. Whilst LPBs had to be constitutionally established by 1 April, in acknowledgment of the scale of the task facing practitioners, an informal grace period of 4 months has been granted to allow funds to finalise appointments and deliver training. KPMG are satisfied with the progress of the establishment of the LPB.

Financial Statements (continued)
Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 8 June 2015. The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 8 March 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. The Fund continues to produce financial statements to a high standard.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

There was one recommendation in our ISA 260 Report 2013/14, which was;

- Consider how to gain assurance over the material accuracy of valuations for assets which have not been revalued during the year as part of the rolling valuation programme. An option may be to revalue a percentage of assets each year where construction has been performed rather than performing valuation on only specified asset classes each year.

The Authority provided a working paper to show consideration to the carrying value of assets not revalued in the year, this recommendation has now been implemented.

Financial Statements (continued)
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.

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 and Wiltshire Council Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire Council Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

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 have provided a template to the Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

The only such matter to report is in relation to an incident of whistleblowing. Following some initial work undertaken by Internal Audit, the issue is now being investigated by the Authority's Corporate Fraud Team and we are awaiting the outcome of this work. We are in the process of determining the potential scale of the matter and what, if any, impact this has on the issuing of our opinion and certificate.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following pages include further details of our VFM risk assessment and our specific risk-based work.

Conclusion

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

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Specific VFM risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Achievement of the savings plan	At the time of our planning work in January the Authority identified the need to make savings of £26m in 2014/15. The forecast showed that the Authority will deliver a £5.3m overspend against its budget although additional savings were being sought to offset this. The Authority estimates that £33min savings will need to be achieved during 2015/16. We are aware the Authority is in the process of developing and agreeing proposals with officers for these savings. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	**Specific risk based work required:** Yes Despite challenging savings targets for the year, the Authority's final outturn position was an under spend against budget of £0.278m. In addition, the final position of the general fund was £12.067m compared to £10.965m as predicated in the financial plan. The Authority has continued to develop savings plans which require savings from all service areas, and has identified additional savings plans in order to compensate for budget pressures, particularly in Adult Social Care and Children's and Education Services. These cost pressures are in line with those experienced by other authorities throughout the country and, as a result, are not indicative of poor arrangements within Wiltshire. Performance against savings targets has been monitored throughout the year as part of the budget monitoring process in order to allow for such cost pressures to be effectively managed.

Specific VFM risks (continued)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Estates	Over recent years the Authority has been undertaking a rationalisation of its estate. This has seen significant reductions in the number of properties occupied by the Authority, with further plans until 2017/18. Following recent staffing changes the Authority has adopted a slower pace to the estates strategy. This will see a total of seven hubs being delivered in phase 1 of the strategy. This will result in build costs of £77m which will be funded from capital receipts, borrowing and third party income. Over the next three years the total value of asset disposals is expected to amount to £70m. The successful delivery of these disposals is a major part of the value for money argument supporting the move to four central hubs and the additional investment required to renovate County Hall. The estates strategy, including the continuing consolidation of Council offices, reflects significant changes in relation to how the Authority will manage and deliver services. As a result, there is a risk that service delivery and customer satisfaction could be impacted. There is also a risk that the correct valuation and sale proceeds may not be achieved and that this may result in additional savings being required. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	**Specific risk based work required:** Yes An impairment was required in relation to the Corsham Campus, to the value of £11.867m. In line with similar impairments in recent years this has been deemed material and disclosed separately on the face of the Comprehensive Income & Expenditure Statement as an exceptional item. The impairment is in relation to building costs as part of the ongoing estates strategy. The Authority is not planning to recoup these costs through sale but ongoing economic use. As a result of the move to four main hubs and a series of campuses (including the Corsham site) the Authority has been able to dispose of 37 assets to date, generating capital receipts of circa £11m. There are a further 38 assets to be disposed of over the next three years, which are expected to generate receipts of £31.9m. The disposal of assets has enabled the Authority to make annual maintenance and lease payment savings of £1.9m to date. This is expected to rise to annual savings of £6.3m once the disposal scheme has been completed. In addition to the financial benefits of the strategy, it has enabled a modernisation of working methods, created a central contact point for the public as well as a more attractive public facility and made integrated working with other providers more assessable e.g. Multi Agency Safeguarding Hub (MASH) which includes the Wiltshire Police, Community Health Services and Childrens Services.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ *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.	❷ *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.	❸ *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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Schools Bank Reconciliation's** We sample tested 10 out of 179 school bank reconciliation's and noted that some of the reconciliation's were completed with errors. These included: • Fynamore Community School – The reconciling items report totaled £9,685 when the difference between the cash balance and ledger balance was £9,676 • St Josephs Catholic School – A difference between the general ledger balance used in the Bank Reconciliation to that shown on Agresso of £176 • Matravers School – A £167 difference due to the incorrect bank statement balance used in the Bank reconciliation Whilst all these balances are immaterial (total projected error of £2,111) it indicates that the control is not operating effectively and that potentially larger errors may not be identified. **Recommendation** An excel template for bank reconciliation's should be distributed to all schools. A review should be undertaken for schools that would benefit from further training.	**Management response** Agree. A standard template will be introduced and we will review the need for training. **Responsible Officer** Grant Davis (Schools Strategic Financial Support Manager) **Due Date** December 2015

Appendix 2: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £0.9m.

These have been adjusted in the Statement of Accounts.

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 your 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 2015.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			CR Cash & Cash Equivalents (£1,867k)	DR Bank Overdraft £1,867k		Since the 2013/14 Code, it is a requirement to present a net cash position unless the overdraft is not part of the Authority's cash management approach. As with the 2013/14 accounts an adjustment is required so that a net cash and cash equivalents position is disclosed on the balance sheet.
2	DR REFCUS £7,434k CR Other Expenditure (Loss on disposal) (£7,434k)					A disposal for £7.434 million BT Broadband Cables was noticed as incorrectly recognised as PPE additions and disposals in the year. As the asset is not owned by the Authority it should have been treated as Revenue Expenditure Funded From Capital Under Statute (REFCUS) and therefore expensed not capitalised. The adjustment has been made to remove the balance from fixed assets and into REFCUS. There are other presentational adjustments made such as removing the addition and disposal from PPE (not net effect).

Appendix 2: Audit differences (continued)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £0.9m.

These have been adjusted in the Statement of Accounts.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
3	DR Other Expenditure (Loss on disposal) £5,787k	CR Adjustments between accounting basis & funding basis under Regulations (£5,787k)	CR PPE (£5,787k)	-	DR Capital Adjustment Account £5,787k	There were £5.787 million of assets relating to new Academy Schools in the year incorrectly held on the balance sheet at year end. These have been derecognised as part of the accounting treating for Academy schools.
	DR £5,787k	**CR (£5,787k)**	**CR (£7,654k)**	**DR £1,867k**	**DR £5,787k**	**Total impact of adjustments**

Appendix 2: Audit differences (continued)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £0.9m.

These have been adjusted in the Statement of Accounts.

In addition to the above adjustments, we identified an adjustment to the prior year figures. This related to the changes required as a result of clarified guidance being issued in relation to the accounting treatment of school assets. The details of this are sown below.

	Impact (Comparative Figures for 2013/14)					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
4	DR Depreciation £1,045k	CR Adjustments between accounting basis & funding basis under Regulations (£1,045k)	DR PPE £46,739k	-	CR Capital Adjustment Account (£46,739k)	The adjustments made in response to LAAP Bulletin 101 initially resulted in Foundation school assets being recognised and brought back onto the Authority's balance sheet in year. Under the requirements of the Code, as this represents a change in accounting policy this should have been recognised as a prior period adjustment as at 1 April 2013, with an adjustment being made to the prior period comparatives within the financial statements. The value of these assets as at 1 April 2013 was £47,785 million, with deprecation of £1,045 million for 2013/14.
	DR £1,045	**CR (£1,045**	**DR £46,739k**	**-**	**CR (£46,739k)**	**Total impact of adjustments**

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd 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 Public Sector Audit Appointments Ltd *Terms of Appointment* (‘Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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. We do this in our *Annual Audit Letter*.

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 Engagement Lead 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.

Appendix 3: 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.

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 and Wiltshire Council Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire Council Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 4: Materiality and reporting of audit differences

For 2014/15 our materiality is £18.5 million for the Authority's accounts. For the Pension Fund it is £18.5 million.

We have reported all audit differences over £0.9 million for the Authority's accounts and £1.85 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in February 2015.

Materiality for the Authority's accounts was set at £18.5m which equates to 1.95 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 1.4 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.5 million for 2014/15.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9m and £1.85m for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

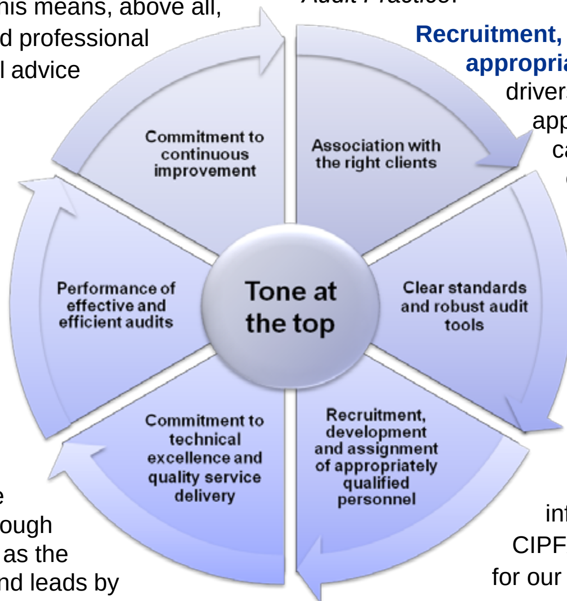
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Darren Gilbert as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 5: KPMG Audit Quality Framework (continued)

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report issued June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG

cutting through complexity™