



External Audit Plan



Wiltshire Council

—

April 2016

Financial statement audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has set at £12.0 million for the Authority and £25 million for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.6 million for the Authority and £1.25 million for the Pension Fund.

Significant risks

One risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error has been identified as:

- Better Care Fund Accounting.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Non-Domestic Rates Deficit;
- Valuation of PPE; and
- Provisions.

See pages 3 to 6 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:

- Better Care Fund Governance; and
- Savings Plans.

See pages 8 to 11 for more details.

Logistics

Our team is:

- Darren Gilbert – Director;
- Adam Bunting – Manager; and
- Rob Andrews – Assistant Manager.

More details are on **page 14**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 13**.

Our fee for the audit is £167,420 for the Authority (a reduction of £55,806 compare to 2014/15) and £24,246 for the Pension Fund see **page 12**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- Financial statements (including the Annual Governance Statement): Providing an opinion on your accounts; and
- Use of resources: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December to March 2016. This involves the following key aspects:

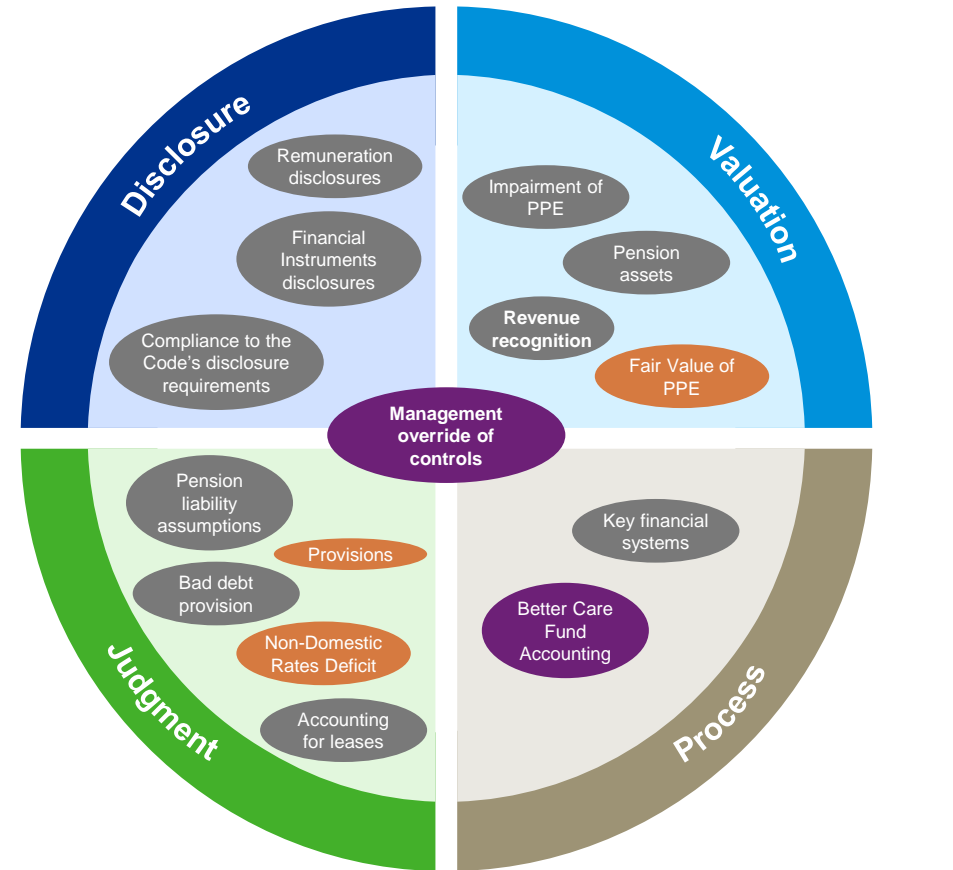
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry 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. This risk also applies to the pension fund audit.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont)

Significant audit risks	
Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.	
Risk	Approach
<p>Better Care Fund Accounting</p> <p>The introduction of the Better Care Fund, which results in pooling of budgets between local authorities and clinical commissioning groups, represents a significant change in relation to the way in which care is delivered throughout the country. Wiltshire Council formed part of the pilot group in relation to the establishment of the Better Care Fund and, as a result, has more extensive experience of administering the Fund. Despite this, the Fund continues to represent a significant accounting risk for the Authority. This is, in part, due to the need to ensure that any under or overspends are appropriately shared between the Authority and Wiltshire CCG and that such sharing is agreed between the parties and founded upon an appropriate basis.</p> <p>In addition, the Code of Practice on Local Authority Accounting in 2015/16 sets out disclosure requirements in relation to the Better Care Fund which must be complied with in the preparation of the Council's financial statements for the year ended 31 March 2016. The Authority will need to ensure that appropriate records and documents are in place to facilitate and support the preparation of these disclosures.</p>	<p>We will review the processes which the Authority has implemented to identify the appropriate costs and contribution to be recognised in its financial statements to ensure that they are effective and appropriate. We will subsequently:</p> <ul style="list-style-type: none"> — agree the value of costs and contributions allocated to the Authority to supporting records and documents; — confirm that the wider values disclosed in relation to the overall Better Care Fund agree to supporting records; and — check that the disclosures related to the Better Care Fund are in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting in 2015/16.

Financial statements audit planning (cont)

Other areas of audit focus		
Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.		
	Issue	Approach
Non-Domestic rates deficit	In 2013/14 additional responsibilities in relation to the management of non-domestic rates were transferred to local authorities. In return, authorities were permitted to retain 49% of the revenue raised from non-domestic rates. During that year, a change in the guidance issued in relation to the completion of non-domestic rates returns (NDR1 and NDR3) resulted in the Authority recognising a deficit in the non-domestic rates element of the Collection Fund. The Council is seeking to recover this deficit through in-year surpluses going forward, but the position requires careful monitoring in order to ensure that this is achieved.	We will review the progress that the Council has made in relation to recovering the historic deficit and the plans for further recovery in future years in order to ensure that they are reasonable and based upon appropriate assumptions in relation to collection rates and growth in the total rateable value of properties in the areas.
Valuation of PPE	The regional discount rates approved for valuing council housing are currently in the process of being revised. It is likely that this change will have a significant impact upon the valuation of the Council's housing stock. Whilst the revised values are currently awaiting Ministerial approval, if finalised and released they will need to be incorporated into the Authority's financial statements should this occur prior to the publication of final audited accounts.	We will monitor the progress made in relation to the approval of the revised discount rates throughout the process of our audit. In conjunction with this, we will review the valuation methodology adopted by the Authority's valuers and ensure that the discount rate is appropriate and reflects the most recent guidance. Where a change in valuation approach is required, we will work with the Council and its valuers to agree the revised value of the affected properties.
Provisions	<p>As part of its ongoing response to the reductions in central government funding, the Authority is making ongoing changes to its structure and delivery models. As a result of this, the Authority has frozen recruitment and has made some staff redundant. There is a need to ensure that redundancy costs to be paid after the year end are appropriately considered when determining the costs to be recognised in the financial statements for year ended 31 March 2016 and it may be necessary to recognise a provision in relation to these costs.</p> <p>In addition the Council is required to establish a provision arising from its responsibilities in relation to non-domestic ratings appeals. These appeals have the potential to be backdated to the most recent valuation date and, as a result, can have a material impact on the Authority's financial statements.</p>	<p>We will consider the methodology that the Authority has developed for estimating the value of provisions (specifically in relation to redundancy costs and non-domestic rates appeals) in order to ensure that:</p> <ul style="list-style-type: none"> — they are based upon sound assumptions; — the most recent information is utilised in developing the provision; and — they have been accurately calculated based upon these assumptions and the available information. <p>We will also review the historic accuracy of these provisions by comparing the value provided for to the actual costs incurred.</p>

Financial statements audit planning (cont)

Materiality

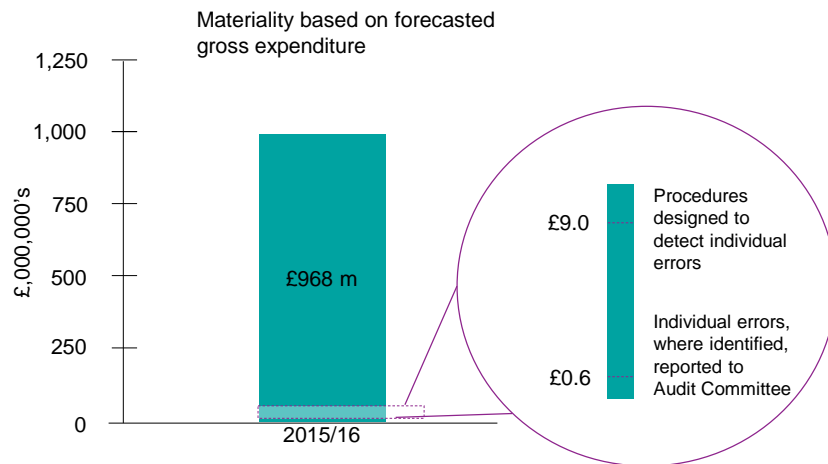
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £12.0 million, which equates to approximately 1.25% percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £18.5 million.

We design our procedures to detect errors in specific accounts at a lower level of precision.



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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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 £0.6 million.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.25 million.

If 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.

Value for money arrangements work

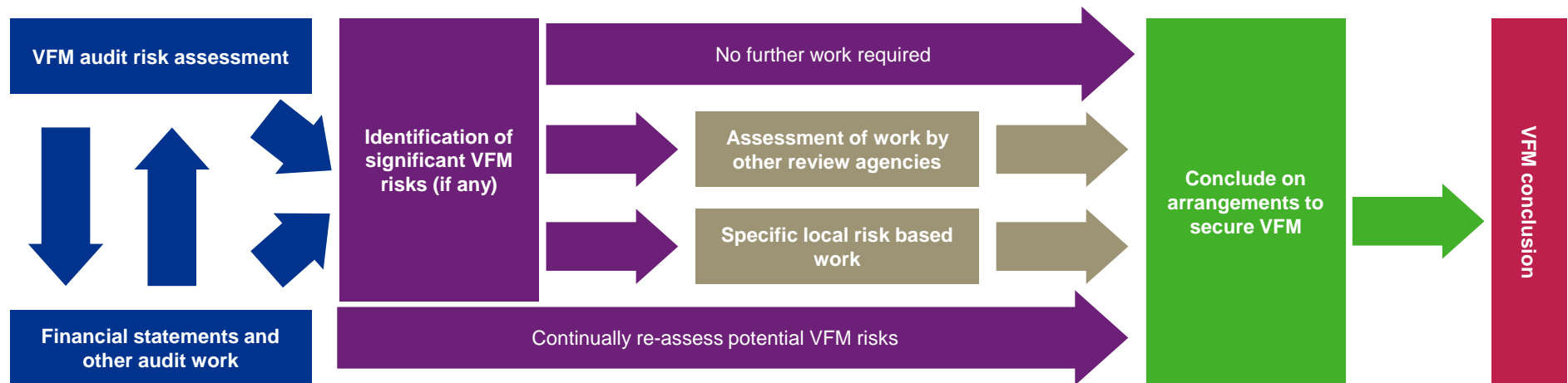
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code of Audit Practice.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none">— The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;— Information from the Public Sector Auditor Appointments Limited VFM profile tool;— Evidence gained from previous audit work, including the response to that work; and— The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none">— Considering the results of work by the Authority, inspectorates and other review agencies; and— Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and Delivery of local risk based work	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none">— Meeting with senior managers across the Authority;— Review of minutes and internal reports;— Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Value for money arrangements work Planning

Significant VFM Risks		
Those risks requiring specific audit attention and procedures to address the possibility that proper arrangements are not in place to deliver value for money.		
	Risk	Approach
Better Care Fund Governance	As set out on page 4, the Better Care Fund represents a significant development for local authorities and their NHS partners. Whilst Wiltshire Council was part of the pilot scheme for the Fund, the need to ensure that appropriate governance structures are in place remains essential. Without such, there is a significant risk that funds contributed by the Authority will fail to deliver the desired outcomes and benefits (both for the public and for the Authority). One of the key challenges in establishing effective governance arrangements is the need to balance the demands of the Authority and partnering Clinical Commissioning Group.	We will review the governance structure and processes which the Authority has put in place in relation to the management of the Better Care Fund and the way in which this is designed to ensure that the objectives of the fund are met. This will include interviews with key members of staff from both the Authority and Wiltshire CCG.
Savings Plans	<p>The Authority has identified the need to make savings of £30m in 2015/16. The period 9 forecast showed that the Authority would deliver a £3m overspend against its budget before management actions. Additional savings were sought to offset this and the resulting forecast for 2015/16 is a breakeven position.</p> <p>The Authority's budget for 2016/17 was approved at the Council meeting on 23 February 2016 and recognised a need for £26m in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £126m will be required over the period 2017/18 and 2020/21 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p>	As part of our additional risk based work, we will review the controls the Authority has in place to identify the need for financial savings and to deliver these. This will include considering whether the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Darren Gilbert, supported by Adam Bunting and Rob Andrews which will deliver continuity with prior years. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

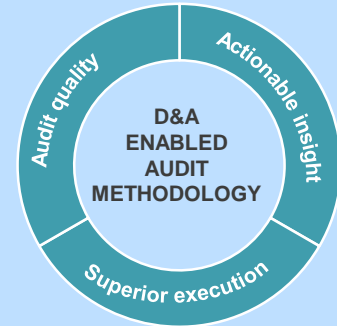
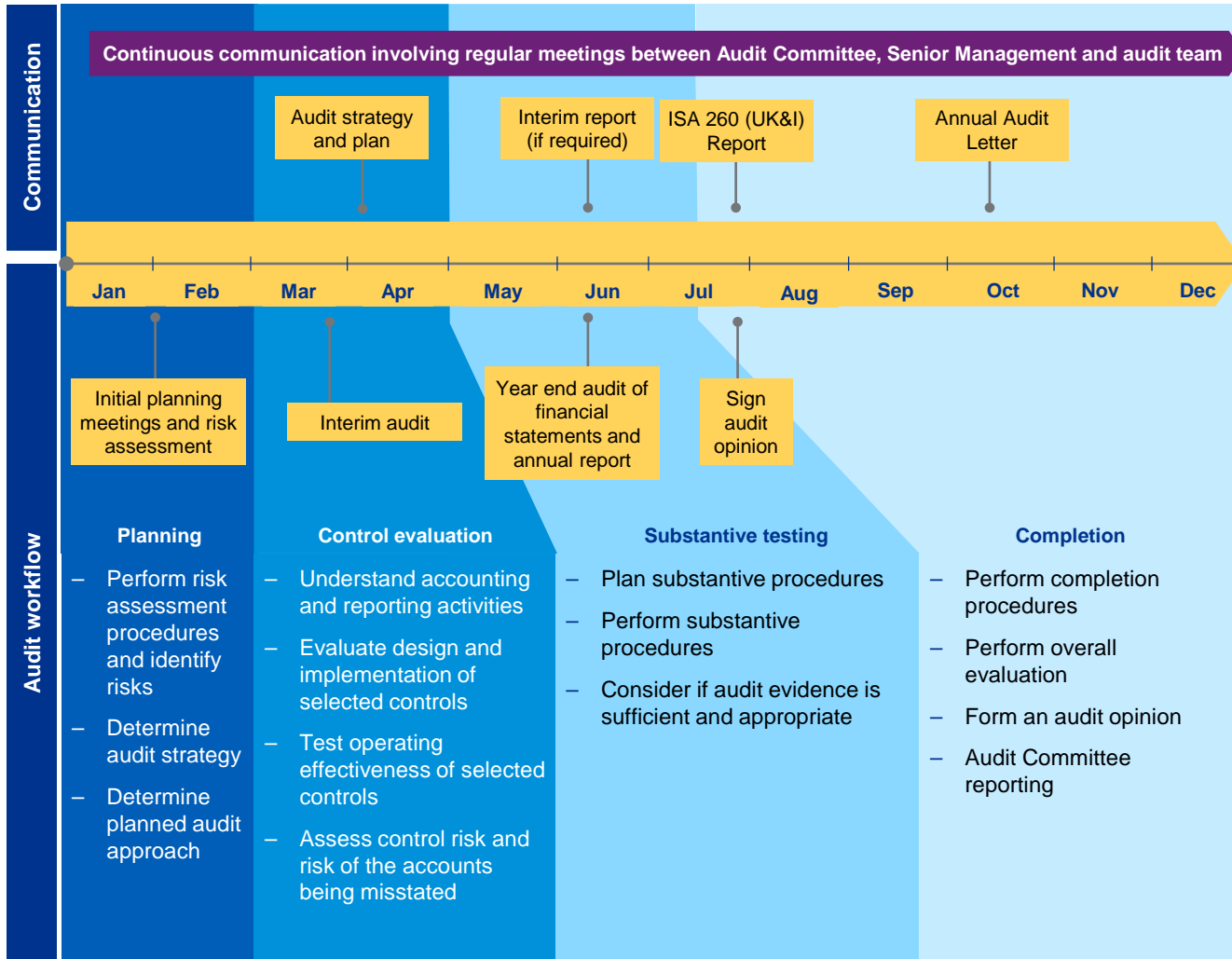
Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £167,420 for the Authority. This is a reduction in audit fee compared to 2014/2015 of £55,806 (25%). The planned audit fee for 2015/16 is £24,246 for the Pension Fund (2014/15 £24,246).



Appendices

Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Wiltshire Council audit last year.



Name	Darren Gilbert
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Corporate Directors.'

Darren Gilbert
Director
T: 029 2046 8205
E: darren.gilbert@kpmg.co.uk



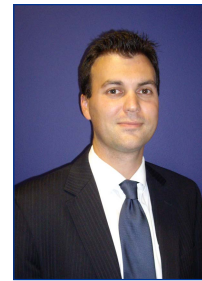
Name	Adam Bunting
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren to ensure we add value. I will liaise with the Associate Director of Finance and other Executive Directors.'

Adam Bunting
Manager
T: 0117 905 4470
E: adam.bunting@kpmg.co.uk



Name	Rob Andrews
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Rob Andrews
Assistant Manager
T: 0117 905 4773
E: rob.andrews@kpmg.co.uk



Name	Duncan Laird
Position	Manager – Pension Fund
	'I provide quality assurance for the Pension Fund audit work and specifically any pension-related technical accounting and risk areas.'

Duncan Laird
Manager
T: 0117 905 4253
E: duncan.laird@kpmg.co.uk

Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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