External audit report 2016/17

Wiltshire Council

—

July 2017

Summary for the Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Wiltshire Council ('the Authority'), along with our audit of the Wiltshire Pension Fund.

This report focusses on our on-site work which was completed in March 2017 and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our interim audit findings are presented on pages 4-9, with the final audit work on pages 10-21.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements on 26 July 2017 (which is nine weeks before the statutory deadline of 30 September 2017).

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements on 26 July 2017.

We have identified three audit adjustments with a total net value of £33.9 million. See page 16 and appendix 3 for details.

Based on our work, we have raised one recommendation. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in line with statutory deadlines.

Value for Money

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. 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 value for money opinion.

See further details on pages 22-26.

Control Environment (including IT controls)

Your organisational control environment is effective overall.

However, we noted that the controls implemented by the Authority in order to manage the risk of inappropriate super user access to the SAP financial accounts system had ceased operating early in the financial year. Whilst we have not identified any instances of unauthorised access we are unable to place reliance upon the IT controls in operations to prevent such access. As a result, our ability to rely upon SAP automated controls was significantly reduced and additional work was required in relation to our financial statements audit.

In addition, we identified that improvements were required in relation to the access controls over the Northgate revenues and benefits system dataset, with a higher than expected number of users being able to directly edit the data.

We have summarised the outcomes of our IT controls work at page 7 and have issued a separate report to management setting out the full details of our findings and the resulting recommendations. Management have indicated that work is underway to resolve the issues identified.

Acknowledgements

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

We ask the Audit Committee to note this report.

KPMG

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Contents

This report is addressed to Wiltshire Council (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. Public Sector Audit Appointments 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, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@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 3H.

Section one

Interim Audit

This section summarises the key findings arising from our work completed in March 2017 as part of our interim testing for the 2016/17 Financial Statements.

This covered:

— review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems and testing general IT controls;

— testing of certain controls over the Authority's key financial systems; and

— review of relevant internal audit work which we are seeking to rely upon.

Organisational Control Environment

Your organisational control environment is effective overall. However, there are significant weaknesses over the current IT control environment.

Work performed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing over all of these controls.

Key Findings

We consider that your organisational controls are generally effective overall. However, there are significant issues identified in the General IT controls over the Authority's financial system (SAP) and the Revenue and Benefits system (Northgate).

Due to the nature of the IT issues identified, we issued a separate detailed report to management outlining their full extent and the resulting recommendations. A summary of the issues has been included on page 7 and in appendix one.

Aspect	Our Assessment	
	2016/17	2015/16
Organisational controls	3	3
Management's philosophy and operating style	3	3
Culture of honesty and ethical behaviour	3	3
Oversight by those charged with governance	3	3
Risk assessment process	3	3
Communications	3	3
Monitoring of controls	3	3
IT control environment (see page 7)	1	2

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

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IT Control Environment

We have been unable to rely on automated controls when performing our audit work because of significant deficiencies identified in the operating of the IT control environment relating to the controls over super users. There are improvements required over system access and permissions.

Work performed

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes and maintenance, system development and computer operations over the SAP (General Ledger) and Northgate (Revenues & Benefits) environments.

Key Findings

Over recent years we have identified ongoing concerns in relation to the control exercised over SAP super user accounts (those making use of the SAP_ALL access profile), particularly those used by the system provider. During 2015/16 we noted that the Authority had made significant progress in relation to this issue in implementing new controls designed to monitor and control the use of these accounts. However, due to staffing changes in August 2016 the completion of these controls ceased. These accounts enable the user to change system parameters, alter individual transactions and delete the resulting audit trails.

There are also a high number of Northgate accounts which have direct access to the system's underlying database. Whilst we flagged this in our 2015/16 Report to Those charged with Governance, we have clarified the extend of the changes that could be undertaken through these accounts and confirmed that they include the ability to delete underlying data and change reporting functionality without testing or approval.

Due to the sensitive nature of these issues, we have issued a separate report to management detailing the full impact of the IT failures, which management have responded to.

We have therefore been unable to rely on the Authority's IT environment during the year. As a result, we had to undertake specific additional substantive procedures and lower the testing and sensitivity thresholds applied throughout our final audit visit. Consequently, we will be agreeing an additional charge with management to cover the cost of this additional work.

Aspect	Our Assessment	
	2016/17	2015/16
Access to systems and data	❶	❷
System changes and maintenance	❶	❷
Development of new systems and applications	❸	❸
Computer operations and end- user computing	❸	❸

Key:
- ❶ Significant gaps in the control environment.
- ❷ Deficiencies in respect of individual controls.
- ❸ Generally sound control environment.

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Review of Internal Audit

Following our assessment of Internal Audit, we were able to place reliance on their work (as per agreed coverage) although an element of top up testing was required.

Background

United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

Work performed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment against the PSIAS in 2015/16.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we did not identify any significant issues which would prevent us from relying on internal audit's work for 2016/17.

We have, however, identified a number of areas for further development:

- Internal audit have reduced their sample sizes in areas such as Treasury Management and Housing & Council Tax Benefits. In order for us to rely on the work, we have had to perform additional top up testing; and
- Internal audit have relied on prior year evidence in areas where there have not been any previously reported errors. Whilst we have been able to rely on these for 2016/17, additional testing would be required in 2017/18 based on our methodology.

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Controls over Key Financial Systems

The controls over the key financial systems are generally sound. However, our testing over controls has been impacted due to the IT control issues identified.

Internal audit have raised a number of recommendations during the year. We have confirmed that these do not have a significant impact on our audit.

Work performed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditor's opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key Findings

Based on our work, and the work of your internal auditors, in relation to those controls upon which we will place reliance as part of our audit, the key financial systems are generally sound.

However, we were unable to rely on many of the controls as a result of the identified IT weaknesses.

The following ratings are based on the design and implementation of the controls in operation at the Authority. In regards to payroll costs internal audit identified missing starter and leaver forms, with IT not always being informed over a leaver. The Council Tax and NNDR outcome relates to internal audit identifying that better evidencing of credit reviews by management was needed.

Aspect	Our Assessment	
	2016/17	2015/16
Payroll costs	2	2
Cash and cash equivalents	3	2
Housing Benefits	3	3
General Ledger	3	3
Council Tax and NNDR	2	2
Purchases	3	3
HRA	3	3

Key: 1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

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Section two

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements and the Pension Fund by 26 July 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority is reporting a deficit of £3.6m (post-audit). The impact on the General Fund is a £0.3m increase in the General Fund.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2017 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Wiltshire Council, which administers the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. The assumptions used by your actuary have been compared to industry standards, as well as being reviewed by our internal actuarial team. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have also engaged with our colleagues in the Pension Fund audit team to gain assurance over the pension figures. No issues were identified as a result of the above work.

Considerations required by professional standards

Fraud risk of revenue recognition

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 2016/17* 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.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. 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.

Other areas of audit focus

We identified three areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code ("the Code"): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** We have obtained an understanding of the methodology used to prepare the revised statements and the prior period restatement We have also agreed figures disclosed to the Authority's general ledger and found no issues to note. Whilst we initially identified three required notes that had not been included in the draft financial statements, these have been incorporated into subsequent drafts.
Valuation of Housing Stock	**Background** The DCLG published revised guidance in relation to the valuation of housing stock. The guidance included revisions to the approved regional discount rates for valuing council housing. **What we have done** We have agreed through the valuation schedules provided by the valuer through to the fixed asset register. The independence and competence of the valuer has been assessed, with the assumptions used compared against DCLG guidelines. We have also performed analytical reviews over expected revaluations. As a result of the above work we identified that the valuer had used the previous social housing adjustment factor, meaning that the value of the Authority's housing stock was materially understated by £34.0 million (including an understatement of £1.6 million in relation to PFI housing assets). The Authority has corrected this in the latest financial statements. As the valuation is undertaken as at 31 March 2017 there is no impact upon the depreciation charged during the year.

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Other areas of audit focus (continued)

Other areas of audit focus	Our work to address the areas
3. IT control failures	**Background** Our audit approach is designed to place reliance upon key financial controls in order to reduce the level of substantive testing required and provide audit evidence. Where these controls are automated by way of the Authority's IT systems we are required to undertake testing over the Authority's general IT controls in order to gain assurance that such automated controls can be relied upon throughout the year. **What we have done** As set out on page 7, our testing of general IT controls was undertaken during February 2017 and highlighted significant concerns in relation to the controls operating over super user accounts in SAP (those making use of the SAP_ALL access profile) and the number of users with direct access to the Northgate database. As a result of these issues we were unable to place reliance upon automated and partially automated controls operating within SAP and Northgate. This includes controls around the posting and authorisation of journals. We have reduced the threshold against which we designed our audit procedures and completed additional substantive where we could not rely on controls. Management have informed us that they are already in the process of implementing changes to address the weaknesses identified through our audit.

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Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0 | 1 | 2 | 3 | 4 | 5 | 6

Cautious — Balanced — Optimistic

Audit difference (0) | **Acceptable range** (1–5) | **Audit difference** (6)

Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NDR)	3	3	The provisions balance (excluding NDR) has increased by £0.1million, mainly due to reductions in Legal Claims and Land Charges being offset by three additional provisions recognised during the year. No concerns have been identified as a result of our work.
NDR provisions	2	2	In 2013/14, local authority funding arrangements meant that the Authority became responsible for a proportion of successful rateable value appeals. Wiltshire Council has provided for a fixed 2.5% of outstanding appeals in accounting for the potential liability. The NDR provision has moved to £1.9m from £1.7m, with the 2015/16 provision fully used in the year. The Authority still remains towards the cautious side of the prudence range and is considered to have sufficient provisions in place. Despite this, the Authority may wish to review its Non-Domestic Rates (NDR) provisions to ensure it remains in line with applicable accounting guidance and reflects the most appropriate methodology. In doing so, the Authority could make use of historic data on the level of successful appeals since 2013/14.
PPE: HRA assets	0	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase of 6.88% is in line with industry standard indices. We have also compared the regional adjustment factor used as part of the Beacon Valuation methodology to the DCLG guidance. The valuer has used the previous regional adjustment factor of 31%, rather than the 35% indicator suggested in the latest DCLG guidance. This has caused a material difference, understating HRA Assets by £32.6 million. This is corrected in the final version of the financial statements, resulting in the final position being within our acceptable range.
PPE: Non HRA Assets	3	3	The Authority has a three year rolling programme of assets to be revalued. In 2016/17, the assets revalued included secondary schools, car parks, public conveniences and cemeteries. There were also other various miscellaneous buildings and new additions that had been revalued during the year. We have assessed the competence of the valuer used and have confirmed that the 3 year rolling programme ensures coverage over the Authority's asset base.
Pension Liability	4	3	The change in pension liability is largely drive by a change in assumptions applied by the actuary, reflecting movements in the changing economic climate. Judgements are complex and numerous. These assumptions have been compared to a PWC review of the actuary, as well as KPMG's own actuarial specialists. The assumptions for RPI Inflation, Salary Increased and Discount rate were within our expectations. The actuary has reduced salary increase rate from 4.2% per annum to 2.7% per annum which is a larger than expected movement. Whilst we believe this is still an acceptable figure, this has meant a more optimistic valuation is used than the prior year.

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Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 26 July 2017.

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 for this year's audit was set at £12.0 million. Audit differences below £0.6 million are not considered significant. See Appendix 4 for more information on materiality.

We identified one material misstatement that has been corrected by the authority (see Appendix 3, item 3). We identified a limited number of further issues that have been adjusted by management but they do not have a material effect on the financial statements. These adjusted differences have been set out in Appendix 3.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2017.

There is no net impact on the General Fund or HRA as a result of audit adjustments identified. The value of the Authority's assets and unusable reserves as at 31 March 2017 increases by £34.2 million however. This is the result of amendments as a result of the Authority's valuers using the incorrect regional adjustment factor when valuing the Authority's council housing stock.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the general fund and HRA 2016/17

£m	Pre-audit	Post-audit	*Ref*[1]
Surplus/(Deficit) on the provision of services	(2.9)	(3.6)	*2 & 3*
Adjustments between accounting basis and funding basis under Regulations	10.4	11.1	*2 & 3*
Transfers (to)/from Earmarked Reserves	(4.5)	(4.5)	
Increase in General Fund and HRA	**3.0**	**3.0**	
Consisting of:			
Increase in General Fund	**0.3**	**0.3**	
Increase in HRA	**2.7**	**2.7**	

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit	*Ref*[1]
Property, plant and equipment	1,059	1,083	3
Other long term assets	36	36	
Current assets	131	131	
Current liabilities	(118)	(118)	1
Long term liabilities	(1,053)	(1,053)	
Net worth	**45**	**79**	
General Fund	(13)	(13)	
HRA Balance	(23)	(23)	
Other usable reserves	(76)	(76)	
Unusable reserves	67	33	3
Total reserves	**(45)**	**(79)**	

[1] See referenced adjustments in Appendix 3.

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Annual governance statement

We have reviewed the Authority's 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

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The Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2016/17 financial statements following approval of the Statement of Accounts.

Pension fund audit

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

In addition, 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 report

We have not yet reviewed the Pension Fund Annual Report and as a result are yet to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

As we have not yet reviewed the Pension Fund Annual Report but we will withhold our audit certificate until the work on the Annual Report is completed.

Fund account as at 31 March 2017

£m	Pre-audit	Post-audit
Opening net assets of the Fund	1,839	1,839
Contributions	99	99
Benefits	(84)	(84)
Management expenses	(11)	(11)
Return on investments	344	344
Closing net assets of the Fund	**2,187**	**2,187**

Net assets as at 31 March 2017

£m	Pre-audit	Post-audit
Net investments	2,174	2,174
Net current assets	13	13
Net assets of the Fund	**2,187**	**2,187**

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Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

KPMG Central

The Authority continues to use KPMG Central, which was first introduced to the audit process in 2014/15. KPMG Central has allowed the team to securely transfer large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown Team to efficiently share requested information. The use of this portal was limited in 2016/17 due to set up issues arising from the migration of the system to SharePoint 2013, although it is expected this will be used in full again for 2017/18.

Accounting practices and financial reporting

The Authority has prepared its accounts in accordance with an earlier deadline than required by statute since 2015/16. As a result, the Authority is well prepared for the changes to statutory deadlines for 2017/18.

We consider the Authority's accounting practices appropriate, except for the way the Authority has accounted for revaluations of investment properties. We have communicated this to management as part of the audit difference raised in appendix 3.

Completeness of draft accounts

We received a complete set of draft accounts on 2 June 2017, far ahead of the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017 which outlines our documentation request. This helps the Authority [and the Pension Fund] to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

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Response to audit queries

We expect that where possible, audit enquires have a turnaround time of two working days. We are pleased to report that this was achieved by Officers, including those who are not part of the finance team. As a result of this, all our audit work is expected to be completed within the timescales agreed. At current, the following areas are ongoing:

— Completion of our final assessment of the assumptions used by the actuary;

— Updating our assessment of subsequent events;

— Receipt of the management representation letter; and

— Receipt and review of the final version of the financial statements.

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.

The Authority has implemented all non- IT related recommendations in our ISA 260 Report 2015/16. We will issue a separate report detailing the progress made against previous IT recommendations.

Appendix 2 provides further details.

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 Pension Fund for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and the Wiltshire 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 5 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 Michael Hudson 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.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

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Section three

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

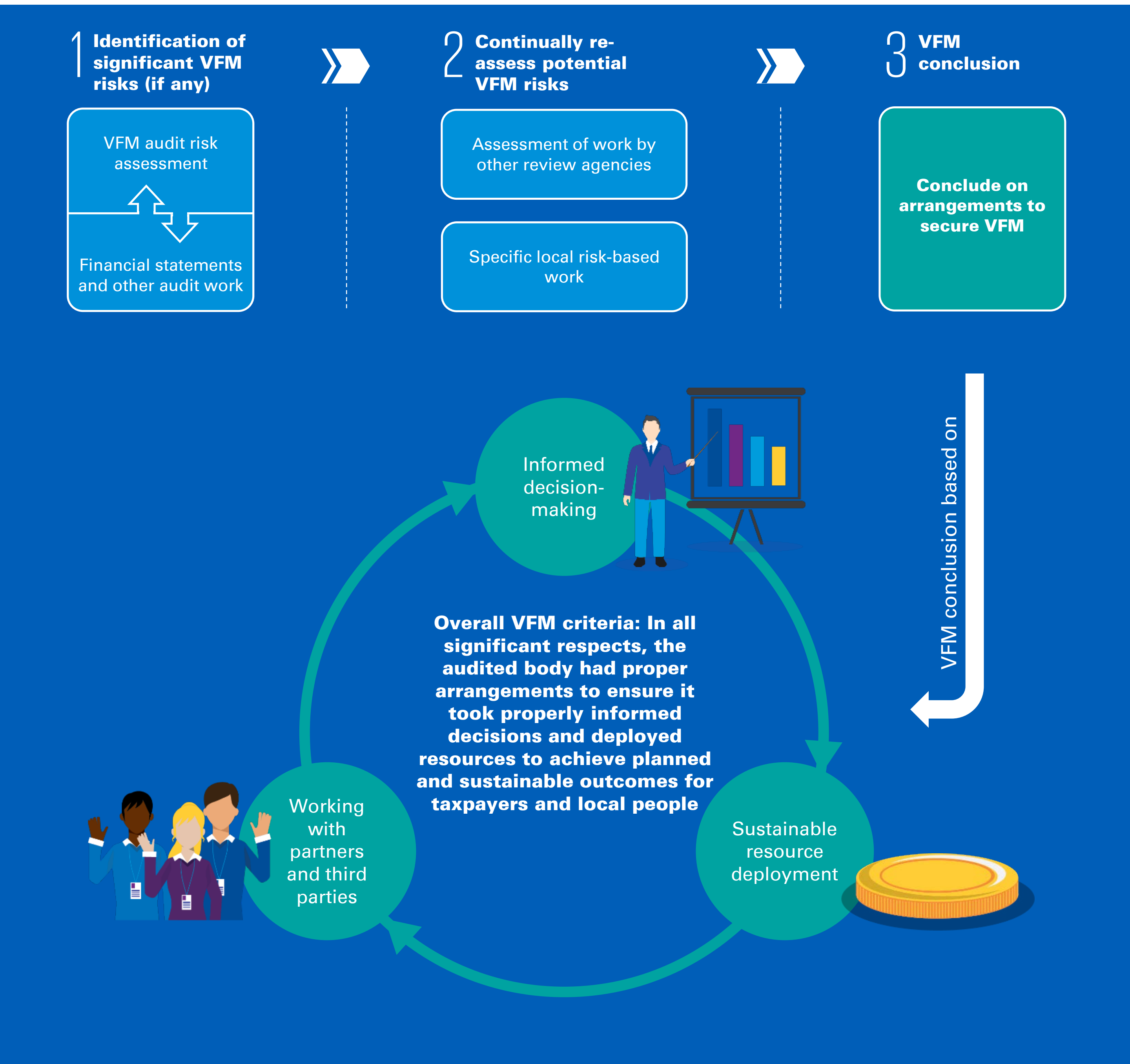
VFM conclusion

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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



VFM conclusion - headline results

The table below summarises our assessment of the significant VFM audit risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Delivery of Savings Plans	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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
- Performed testing over the identified risk areas during our final audit visit.

Further details on the work done and our assessment are provided on the following pages.

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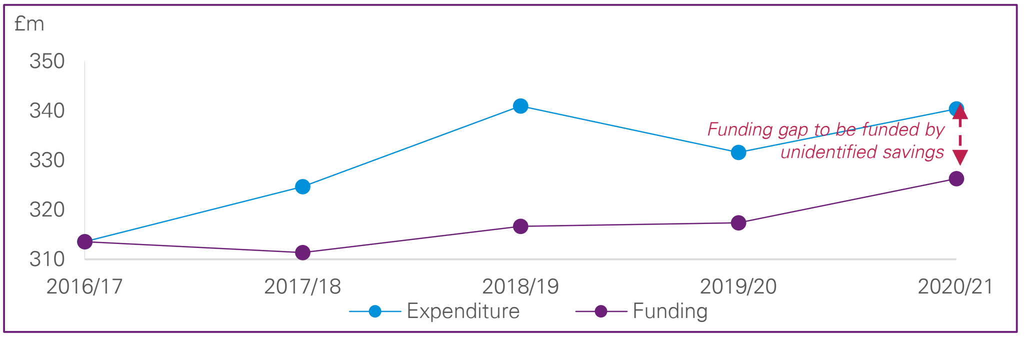
Significant VFM risks

We identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. 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.

Significant VFM risks	Work performed
1. Delivery of Savings Plans	**Why is this a risk?** There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances. In October 2016, the Authority published a draft Medium Term Financial Plan (MTFP) 2017/18–2021/22 (which incorporates its Efficiency Plan) that sets out a balanced budget for 2017/18. From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed arrangements include a 2% yearly increase in Council Tax and reducing the number of budget holders to ensure accountability. **Summary of our work** Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the Authority's financial pressures. Post-audit, the Authority is reporting an overall £3.6 million deficit on its Provision of Services in 2016/17 after the increase of £4.5 million to the Earmarked reserves. This enabled the General Fund balance to return an additional £0.3 million for 31 March 2017. The Authority's MTFP details a balanced budget for 2017/18 including savings of £13.3 million in year, which have been partly identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £24.3 million by 2018/19. We have reviewed the Medium Term Financial Plan and assessed its reasonableness. Whilst it is believed that the plan is broadly suitable, it will be challenging to deliver the transformational change needed to meet future savings targets. However, the Authority has continued to achieve savings targets for 2016/17 and therefore should be well positioned to achieve future requirements.



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Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. The summary of these issues have been included here. However, due to the nature of the IT issues, we have issued a separate report to management further detailing our recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority 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.

Medium priority 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.

Low priority Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	**Total raised for 2016/17**
High	1
Medium	0
Low	0
Total	**1**

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Key issues and recommendations (continued)

Rating	Issue and Recommendation	Management Response
High priority	**IT Control Failures** As a result of our audit work over the Authority's IT systems we identified a number of significant weaknesses. As a result of this, we were unable to place reliance upon the automated controls operating within these systems and additional work was required in order to gain assurance over system reports. The control failings identified can be summarised as follows: *SAP IT Issues* The Authority had previously implemented a process to monitor the use of the extremely powerful SAP_ALL access profile. Due to staffing changes in August 2016, these accounts were not appropriately monitored during the year after that period. Therefore, there was a potential during the year to have unlimited access to change system parameters and alter audit trails without detection. *Northgate IT Issues* There are a high number of Northgate accounts which have access to systems underlying database. The testing performed in 2016/17 has confirmed that this includes the ability to delete records and change reporting functionality without testing or approval. These issues have meant that extensive additional testing had to be performed in the year, including lowering the performance materiality threshold and increased substantive testing over management provided reports. Due to the critical and sensitive nature of the issues identified, a separate IT report has been issued detailing the full range of SAP issues and our recommendations. **Recommendation** Ensure that the agreed recommendations set out in the separate IT report are actioned in a timely manner.	*SAP IT Issues* Point agreed and actions taken. All access was removed from all dialog SAP accounts at various points during the financial year, with the last one removed 5 January 2017. No dialog users therefore now have access to SAP-ALL. Action now complete, but area will be continually reviewed as part of normal controls procedures. *Northgate IT Issues* Point agreed and actions taken. Immediate action was taken to clear out all user accounts that have no need to access the domain at this level. Accounts were also removed during the 2016/2017 financial year. Action now complete, but area will be continually reviewed as part of normal controls procedures. *Other* The other medium and low risk IT issues have also been discussed and appropriate actions taken. Most have actions have already been completed. **Responsible Officer** Steve Vercella (Head of ICT) **Deadline for Implementation** High risk areas Complete. Most medium and low risk already complete, but final target 31/12/2017

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Follow-up of prior year recommendations

In the previous year, we raised nine recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary (Non-IT)

Priority	Number raised	Number implemented / superseded	Number outstanding
High	-	-	-
Medium	-	-	-
Low	1	-	-
Total	**1**	**-**	**-**

2015/16 recommendations status summary (IT)

See Separate IT Report

Rating	Issue and Recommendation	Management Response
Low priority	**2. Narrative Statement** The is the first year under which the Authority must report a narrative statement at the beginning of the Statement of Accounts, this has replaced the explanatory foreword however it is intended to provide a greater focus upon the Authority's operational performance throughout the year, including non-financial metrics. The draft narrative statement submitted by the Authority is largely a rolled forward explanatory foreword rather than a bespoke narrative statement. **Recommendation** The narrative statement should be rewritten for the 2016/17 statement of accounts to ensure that it fully adheres to the CIPFA Code guidance.	**Management original response** Agreed, guidance has just been issued by CIPFA and the s151 Officer has been engaged in the production of those notes and will draft an early template for 2016/17 based on the 2015/16 Accounts. *Owner* Michael Hudson (Associate Director of Finance) *Original deadline* 7 April 2017 **KPMG's July 2017 assessment** Fully implemented We have reviewed the Narrative Statement for 2016/17 and believe it is now much more comprehensive and in line with the CIPFA code guidance.

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Audit differences

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.

A number of amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. These have been communicated with management and we will confirm these have been changed once we receive the final set of financial statements.

Adjusted 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 2017. The current figures are provisional based on our current discussions with management. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1				Dr Sundry Creditors £6,903 Cr Local Authority Creditors (£6,903)		This was a misallocation in Note 28 Short Term Creditors for a balance owed to Swindon Borough Council.
2	Dr Net Cost of Service £1,109 Cr Financing and Investment Income (£744) Cr (Surplus) or Deficit on Revaluation of PPE (£365)	Dr Adjustments between Accounting Basis and Funding Basis (Unuseable Reserves) £365 Cr Adjustments between Accounting Basis and Funding Basis (Useable Reserves – General Fund) (£365)			Dr Revaluation Reserve £347 Cr Capital Adjustment Account (£347)	Per IPSAS 16, gains and losses arising from fair value adjustments should be immediately recognised as Financing and Investment Income through the CIES rather than the revaluation reserve. As this is not a not a proper charge to the General Fund, these revaluations are then reversed out to the Capital Adjustment Account. The Authority has recognised elements of the accounting treatment correctly, although adjustments were needed between the CIES categories and the reserve balances.

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Audit differences (continued)

Table 1: Adjusted audit differences (£'000)						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
3	Dr Other Operating Expenditure £248 Cr (Surplus) or Deficit on Revaluation of PPE (£34,242)	Dr Adjustments between Accounting Basis and Funding Basis (Unuseable Reserves) £248 Cr Adjustments between Accounting Basis and Funding Basis (Useable Reserves - HRA) (£248)	Dr Property Plant and Equipment £33,994		DR Capital Adjustment Account £248 Cr Revaluation Reserve (£34,242)	The Authority uses an external valuer to value HRA and PFI Beacon properties. DCLG guidance states that an adjustment factor of 35% should be used to reflect the ratio between private and public sector rent and yields. However, the previous rate of 31% has instead been used. This has caused a material difference. As the valuation was undertaken as at 31 March 2017, there is no impact on the depreciation charges in the year.
	(£33,994)	-	**£33,994**	-	**(£33,994)**	**Total impact of audit differences**

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Appendix 4

Materiality and reporting of audit differences

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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.2 percent of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision, set at £7.5 million for 2016/17. As set out in our *External Audit* Plan, this was set at a level lower than would normally be applied as a result of the IT issues encountered during the year.

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 £0.6 million for the Authority.

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.

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 1.1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.5 million for 2016/17.

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Appendix 5

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

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 LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Wiltshire Council and Wiltshire Pension Fund for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire 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.

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Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work			
Description of non-audit service	**Estimated fee**	**Billed to date**	**Potential threat to auditor independence and associated safeguards in place**
Review of the Medium Term Financial Plan	£25,000	£6,250	**Management threat:** The nature of this work is to review the assumptions and conclusions as part of the Medium Term Financial planning process. The audit team do not have any direct involvement in the budgeting process and are not making any management decisions. Any recommendations raised as part of the review are ultimately up to the discretion of management whether to implement and is for advisory purposes only. The nature of this work is more detailed than that undertaken required to fulfil our responsibilities under the Value for Money element of our audit. We have determined that no actual independence threat arises.
Grants Certification (Housing Benefits, Teachers Pensions Return and Pooling of Housing Capital Receipts)	£27,165	£21,165	The certification of the Housing Benefits Subsidy return forms part of our contractual responsibilities as the Authority's appointed auditor. The Teacher's Pensions Agency return also formed part of these responsibilities until it was removed from the PSAA certification regime in 2013/14. The nature of these audit-related services is such that we do not consider it to create any independence threats.
Total estimated fees		£27,410	
Total estimated fees as a percentage of the external audit fees		16%	

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Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £167,420 plus VAT *in 2016/17*, which is a consistent with the prior year. However, an additional fee will be requires due to additional work undertaken in relation to the IT control failures. We are in the process of assessing the extent of additional work that was required in relation to this and will agree the additional fee with the Associate Director (Finance) by the end of July. This fee will also be subject to approval by PSAA. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2017. The planned scale fee for this is £21,165 plus VAT (this is higher than the fee charged in 2015/16 as a result of PSAA's approach to determining these fees). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,000 plus VAT in 2016/17, see further details below.

Fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee (Wiltshire County)	167,420	167,420
PSAA scale fee (Wiltshire Pension Fund)	£24,246	£24,246
Additional work to conclude our opinions (relating to IT issues)	TBC	N/A
Subtotal	**TBC**	**£191,666**
Housing benefits (BEN01) certification work		
PSAA scale fee – planned for August 2017	£21,165	£16,916
Other grants certification work		
Teachers Pension Return – planned for August 2017	£3,000	£3,000
Pooling of Housing Capital Receipts Return – planned for August 2017	£3,000	£3,000
Total fee for the Authority	**TBC**	**£214,585**

All fees are quoted exclusive of VAT.

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