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External Audit ISA260 Report 2017/18

Wiltshire Council

—

July 2018

Summary for Executive Committee

This document summarises the key findings in relation to our 2017-18 external audit at Wiltshire Council ('the Authority') and Wiltshire Pension Fund.

This report covers both our on-site work which was completed in February 2018 and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We have confirmed that the issues identified in the 2016-17 audit in relation to SAP_ALL super user access have been appropriately remedied and the Authority now has a generally sound IT control environment. We have communicated a number of low level recommendations directly with management on how to further improve this environment.
Controls over key financial systems	The Authority has a generally sound control environment in place with effective controls over key significant accounts. We have raised two recommendation (see Appendix 1) in relation to the retention of related party evidence and monitoring of contracts.
Review of internal audit	We have used the work performed by internal audit to inform our risk assessment and audit work. We identified no issues with the work performed by internal audit.
Accounts production	The Authority has prepared its financial statements in advance of deadlines during prior years and as a result of this was well placed to meet the faster close deadlines. We received a draft set of financial statements on 31 May 2018 which were of similar quality to prior years. In addition, the working papers provided to us to support our audit have continued to be of a high standard.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** Based upon our assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 10): — **Valuation of PPE** – The Authority operates a cyclical revaluation approach to meet the Code requirement that all land and buildings be held at fair value. We have considered how the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued. No issues were identified as a result of this work. — **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and have considered the assumptions used in determining the valuation. No issues were identified as a result of this work.

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Summary for Executive Committee (cont.)

Financial statements (continued)

We have identified one audit adjustment with a total value of £3.079 million. See page 31 for details. This adjustment has no impact on the reported surplus on provision of services or on the general fund or Housing Revenue Account balances.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 24 July 2018 subject to completing of our work over the Authority's Whole of Government Accounts return and issuing of our consistency statement over the Pension Fund Annual Report. Following this, we will issue our Annual Audit letter in August 2018.

Pension Fund financial statements

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

Based upon our assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 10):

— **Valuation of hard to price investments** – The Pension Fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We have verified a selection of investments to third party information and confirmations with no issues being identified.

We have identified one audit adjustment with a total value of £3.565 million. See page 32 for details. This adjustment has no impact on the reported balance of the Fund Account.

Value for money arrangements

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

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this throughout the audit. As a result of this we have identified the following significant VFM audit risks:

— **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We reviewed the controls in place to ensure financial resilience, specifically that the Medium Term Financial Plan had duly taken into consideration relevant factors and sensitivity analysis. We considered the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year. As a result of this work we raised one recommendation (see Appendix 1).

See further details on pages 25-26.

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Summary for Executive Committee (cont.)

Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help. As this is now the final period of audit, we would like to raise a special thank you for the years that we have worked with the Council. We will help ensure a smooth handover to your new auditors and wish you the best for the future.

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Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

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 of these controls.

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, system development and computer operation. During 2016-17 we raised significant recommendations in relation to the IT control environment. These recommendations related to the controls over access to the SAP and Northgate systems. Our testing during 2017-18 confirmed that these issues had been appropriately addressed. As a result of this, we consider that your organisational and IT controls are effective overall. We have, however noted a number of areas for further improvement, particularly in relation to:

- Access rights to the SAP systems not being subject to adequate periodic review;
- Lack of logging of system changes in specific scenarios; and
- Policies not having been reviewed in line with expectations and password criteria differing from that set out in the policy.

In each instance we confirmed that there was no impact on the audit either due to the nature of the issue or through additional testing. We have communicated specific recommendations on each of these areas to management. Due to the low priority attached to these we have not included further details in this report.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	2
Development of new systems and applications	3
Computer operations and end-user computing	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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Review of internal audit

Following our assessment of Internal Audit, we were able to place reliance on their work over the key financial systems.

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 completed

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 (ISA610) 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 PSIAS2 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 have not identified any significant issues which would prevent us from relying on internal audit's work for 2017/18.

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Controls over key financial systems

The controls over all of the key financial systems are sound.

Work completed

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.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then 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 your internal auditors' 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, we have determined that the controls over all of the key financial systems are sound. We have also been able to rely on controls not used during our 2016-17 audit as a result of issues identified with SAP being appropriately remedied for the 2017-18 financial year.

We have not identified any additional audit recommendations other than those already raised to you as part of the internal audit reporting.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
HRA rental income	3
HRA repairs and maintenance expenditure	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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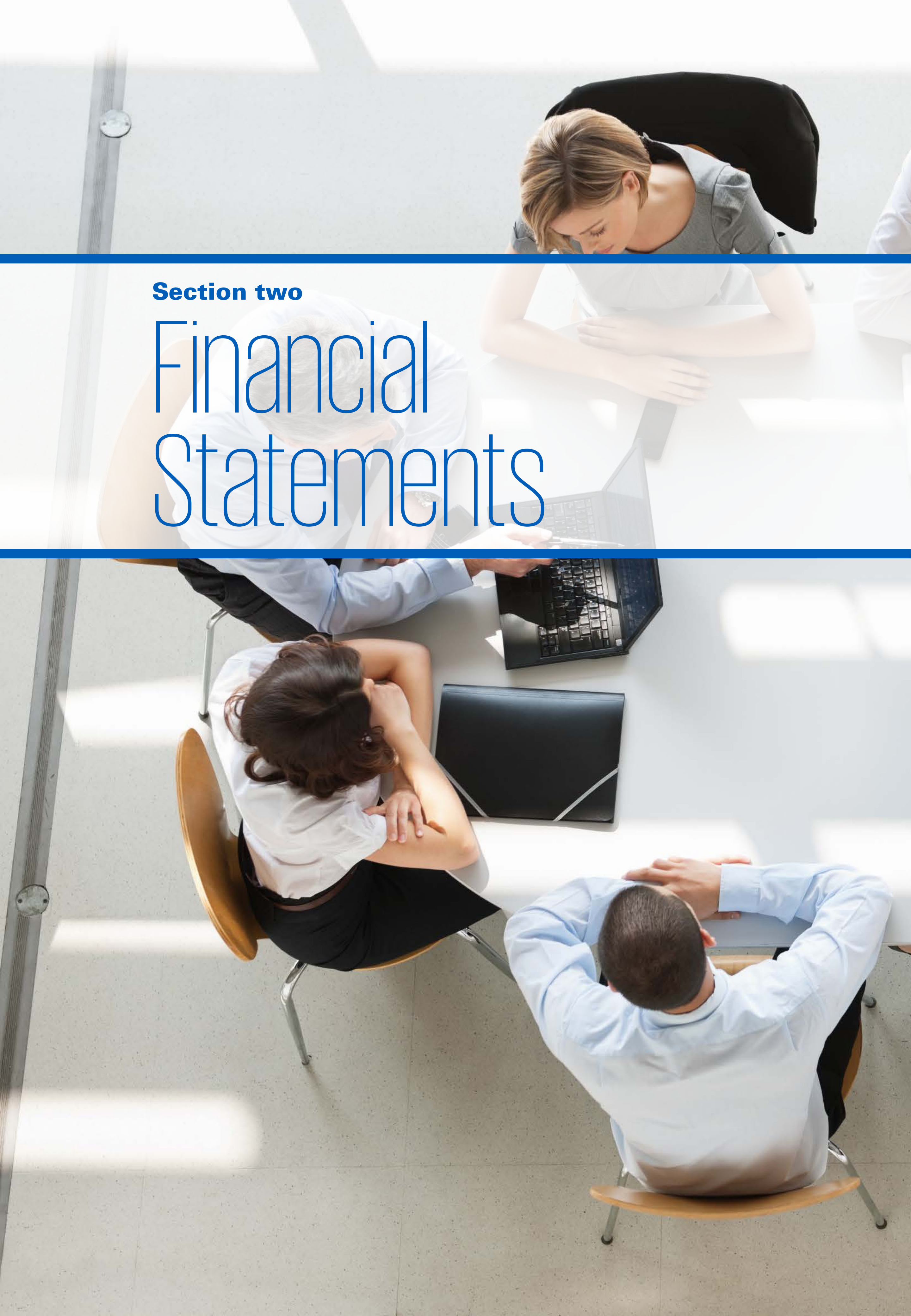
Section two

Financial Statements



Accounts production and audit process

Auditing 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.

The Authority's overall process for the preparation of the financial statements is adequate.

Accounts practices and production process

The Authority continues to deliver strong working papers in the necessary timeframes. As the Authority began preparing its financial statements to an advanced timetable in prior years it was already well placed to meet the new faster close deadlines.

We consider that the overall process for the preparation of your financial statements is sound. We would like to pay particular thanks to Stuart Donnelly and Matthew Tiller for their cooperation throughout the audit.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of both the Authority and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority or Pension Fund to continue as a going concern.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17. The Authority has implemented the significant elements of this recommendation in line with the timescales of the action plan. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which was the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Stuart Donnelly on 22 February 2018. This important document sets out our audit approach and timetable. It also summarised the working papers and other evidence we required the Authority to provide to support our audit work. This helped the Authority and the Pension Fund to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

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Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. 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 2018, the Authority has reported a surplus on provision of services of £7.821m. The impact on the General Fund has been an increase of £0.41m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements and those of the Pension Fund.

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Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a three year cycle. As a result of this, however, individual assets may not be revalued for three years. This created a risk that the carrying value of those assets not revalued in year differed materially from the year end fair value. In addition, the Authority brought forward the valuation date to 28 February 2018 in response to Faster Close deadlines. As a result of this there was a risk that the fair value was different at the year end.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the valuations used are reasonable. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 16.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Wiltshire Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There was a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation were not reasonable. This could have had a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority had in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected range by involving a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. As a result of this work we determined that the figures used by the Pension Fund are materially accurate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.

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Specific audit areas (cont.)

Other areas of audit focus – Authority

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

The Authority has already developed the plans and processes necessary to produce the accounts to this shortened timescales and has met this in prior years.

We highlighted, however, that for the year ended 31 March 2018 there was no longer the comfort that the Authority was working to an internally advance timescale where any delays would not impact on statutory deadlines. Whilst we had not experienced significant delays in recent years, if such delays were to arise this year there was a substantial risk that the audit would not be completed by the 31 July deadline.

There was also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work was still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

The Authority produced its draft accounts in accordance with the advance timescales and we anticipate issuing our audit report on 24 July 2018.

In addition, whilst our work on the Whole of Government Accounts is ongoing at the date of this report we anticipate that it will be completed by 24 July and that as a result we will also be able to issue our Audit Certificate on that date.

Issue:

Changes to MRP Approach

Local authorities are required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or credit arrangements. There are a number of options set out in statutory regulations which Authorities may adopt when calculating the level of its Minimum Revenue Provision. When selecting an approach, the Authority is required to do so in a manner which ensures that the resulting provision represents the most prudent and appropriate result.

We understood that the Authority was considering revising the approach it adopts in relation to the calculation of the Minimum Revenue Provision for the year ending 31 March 2018 onwards.

Our assessment and work undertaken:

We have reviewed the Authority's rationale for revising its approach to calculating its Minimum Revenue Provision and confirmed that it is compliant with the requirements of the Code and relevant Regulations.

In addition we are in the process of reviewing the calculations supporting the minimum revenue provision for the year ending 31 March 2018 to ensure that they are in line with the revised methodology and that the accounting entries made are appropriate.

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Specific audit areas (cont.)

Other areas of audit focus – Authority (cont.)

Issue:	**Prior Year IT Issues** 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. Of particular importance are the general ledger (SAP) and the revenues and benefits system (Northgate). 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 enabled the user to change system parameters, alter individual transactions and delete the resulting audit trails. There were 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 clarified the extent of the changes that could be undertaken through these accounts during our 2016/17 audit and confirmed that they included the ability to delete underlying data and change reporting functionality without testing or approval. As a result of these issues we were unable to rely on the Authority's IT environment during the 2016/17 and had to undertake specific additional substantive procedures and lower the testing and sensitivity thresholds applied throughout our final audit visit. We understood that the Authority had taken appropriate steps to address these areas of weakness for the current year.
Our assessment and work undertaken:	We reviewed the actions taken by the Authority to address the issues set out above. This included confirming that: — the SAP_ALL access profile has been deactivated; and — the number of Northgate accounts with direct access to the underlying database has been reduced to an appropriate level. As a result of this work we confirmed that the significant issues identified in prior years had been addressed and that the SAP_All access profile had been deactivated. Whilst our work over the Authority's IT control environment identified some further areas for improvement these were of a lower priority and have been communicated to management for resolution.

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Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:

Valuation of hard to price investments

The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.

In the prior year financial statements, £198 million out of a total of £2,174 million of investments, or 9.1%, were in this harder to price category.

Our assessment and work undertaken:

As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.

As a result of this work we determined that the Pension Fund place reliance on valuations provided by the investment managers. We assessed the valuation of harder to price investments as reasonable.

Other areas of audit focus – Pension Fund

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding in relation to the Pension Fund.

Issue:

Change in Custodian

During the year the Pension Fund has engaged a new Custodian (State Street). The role of the Custodian is to safeguard the pension assets.

Where there is a change in Custodian there is a risk that, due to errors in the transfer of assets, the value of assets received by the new Custodian fails to reflect the closing value under the prior Custodian..

Our assessment and work undertaken:

We will confirmed that the value of assets recorded as received by State Street agrees to the closing values as reported by the previous Custodian with no issues being identified.

In our *External Audit Plan 2017-18* we noted that there had been a significant staffing change in the Pension Fund's financial reporting personnel since the 2016-17 audit. We have worked with the Pension Fund in order to minimise, so far as possible, any impact on our audit and can confirm that there has been no significant impact.

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Judgements

We have considered the level of prudence within key judgements in your 2017-18 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
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates) 2018: £2.212m (2017: £2.613m)	3	3	The provisions balance (excluding NDR) has decreased by £0.4 million, mainly due to the PfP pension provision being fully utilised during the year with no need to create additional provisions for this matter. We have not identified any concerns relating to the provisions made by the Council.
Business Rates provision 2018: £1.804m (2017: £1.882m)	2	2	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Authority provides for a fixed percentage of outstanding appeals in accounting for the potential liability. The Authority may wish to review its Non Domestic Rates (NDR) provisions in line with applicable accounting guidance. The Authority could perform this by reviewing its NDR provisions and incorporate historical appeals success rates to fairly reflect local information.
Property Plant & Equipment: HRA Assets 2018: £304.445m (2017: £287.876m)	3	0	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 GVA Grimley 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 5.26% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. We have also compared the regional adjustment factor used as part of the Beacon Valuation Methodology to the DCLG guidance. We can confirm that the appropriate adjustment factor of 35% has been used for this financial period. The prior year assessment reflects the fact that the incorrect adjustment factor was used in the 2016-17 draft accounts.
Property Plant & Equipment: Non-HRA Assets 2018: £1,137m (2017: £1,084m)	3	3	The Authority has a three year rolling programme of assets to be revalued. In 2017/18, the assets revalued included offices, libraries, youth centres and leisure centres. There were also other various miscellaneous buildings and new additions that have been revalued during the year. We have assessed the competence of the valuer used and have confirmed that the three year rolling programme ensures coverage over the Authority's asset base.

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Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities Assets: 2018: £1,045m (2017: £971m) Liabilities: 2018: £1,596m (2017: £1,584m)	3	3	The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £152.6 million. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Benchmark	Assessment
Discount rate	2.60%	2.50%	2
Net discount rate	2.40%	2.16%	4
Salary Growth (CPI+)	0.3%	0%-2.0%	3
Life expectancy Current male / female Future male/female	24.1 / 22.5 26.7 / 24.9	23.5 / 22.1 25.4 / 23.9	2

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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 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 24 July 2018.

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 (see Appendix 4) for this years audit was set at £9.000 million. Audit differences below £0.600 million are not considered significant.

We did not identify any material misstatements. We identified one non-material adjustment (see Appendix 3) that has been adjusted by management which related to a balance of £3.079 million of school debtors netting off against the sundry creditors balance. A reclassification has been raised to ensure the balance is reported on a gross basis.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing these where significant.

The tables below illustrate the total impact of audit differences on the Authority's movements on the General Fund and Housing Revenue Account for the year and balance sheet as at 31 March 2018. There is no impact on the General Fund and Housing Revenue Account as a result of audit adjustments.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing each of these where significant.

Movement on the General Fund 2017-18

£'000	Pre-Audit	Post-Audit	Ref[1]
Surplus on the provision of services	7,821	7,821	
Adjustments between accounting basis and funding basis under regulations	(2,988)	(2,988)	
Transfers to earmarked reserves	(9,642)	(9,642)	
Increase in General Fund and Housing Revenue Account	**(4,809)**	**(4,809)**	
Of which:			
General Fund	410	410	
Housing Revenue Account	(5,219)	(5,219)	

[1] See referenced adjustments in Appendix 3.

Balance Sheet as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref[1]
Property, Plant & Equipment	1,136,801	1,136,801	
Other long term assets	39,611	39,611	
Current assets	120,771	123,850	T1.1
Current liabilities	(106,521)	(109,600)	T1.1
Long term liabilities	(972,886)	(972,886)	
Net worth	**217,776**	**217,776**	
General Fund	12,944	12,944	
Housing Revenue Account	17,951	17,951	
Other useable reserves	109.080	109.080	
Unusable reserves	77,801	77,801	
Total Reserves	**217,776**	**217,776**	

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Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent 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 2017-18 narrative report and are awaiting a revised version to ensure the suggested adjustments have been made.

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Pension Fund financial statements

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Pension Fund Committee on 24 July 2018.

Pension Fund audit

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

For the audit of the Fund we used a materiality level of £25.0 million. Audit differences below £1.25m are not considered significant.

We have set out the significant audit differences in Appendix 3 and it is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments. We understand that the Fund will be addressing these where significant.

Fund account as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref[1]
Opening net assets of the scheme	2,187	2,187	
Contributions	104	104	
Benefits	(87)	(87)	
Management expenses	(13)	(9)	T2.1
Return on investments	207	203	T2.1
Closing net assets of the scheme	**2,398**	**2,398**	

Net assets as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref[1]
Net investments	2,382	2,398	
Net current assets	16	16	
Net assets of the scheme	**2,398**	**2,398**	

[1] See referenced adjustments in Appendix 3.

Annual report

The Pension Fund Annual Report has not been prepared yet and we 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.

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

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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 2017-18 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 2018, 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.

We have provided a detailed declaration in Appendix 6 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 Ian Duncan 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 2017-18 financial statements.

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Section three

Value for Money Arrangements

Specific value for money risk areas

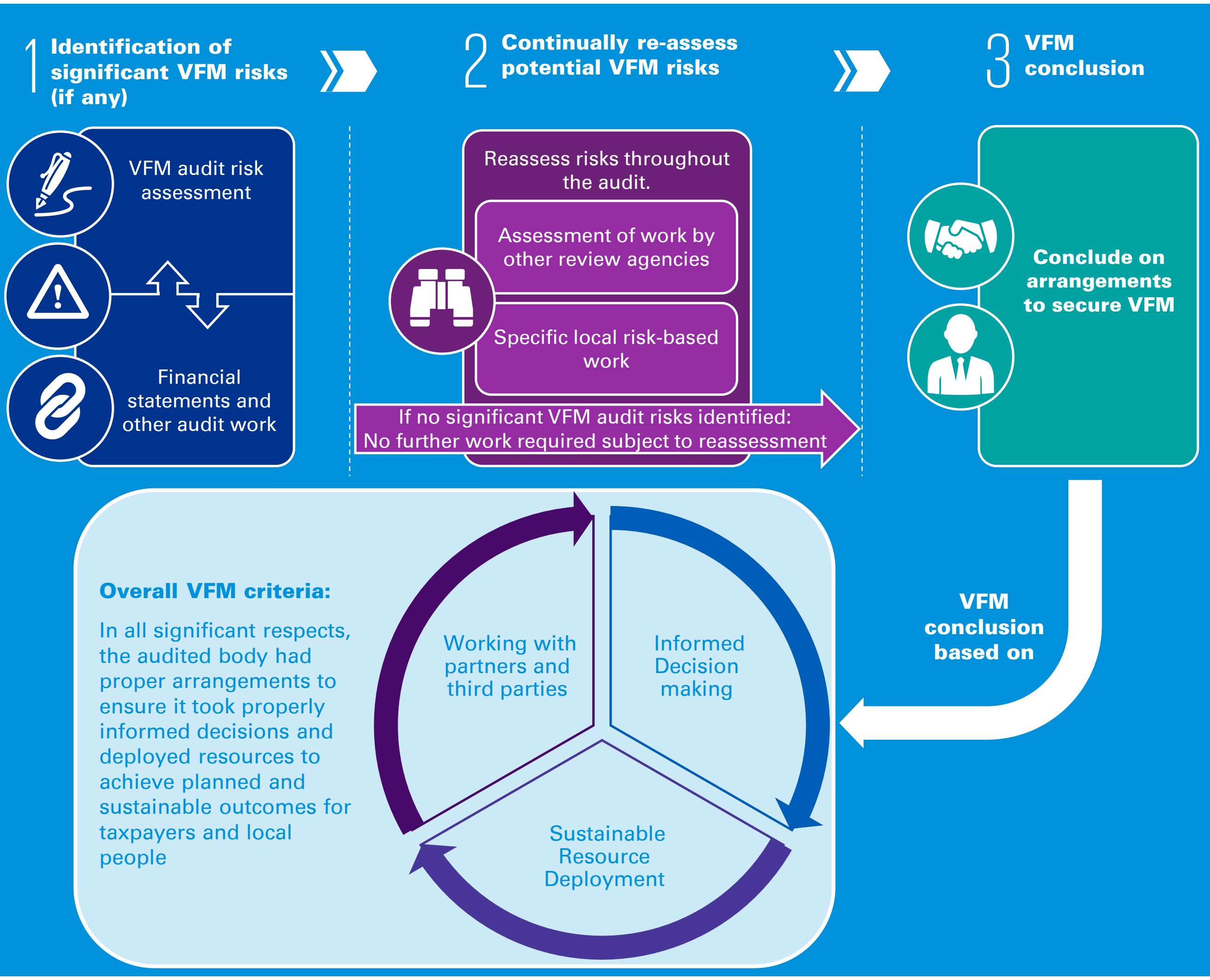
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



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Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, 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.

Our work identified the following areas of weakness in the Authority's arrangement which we have raised in appendix 1:

— Monitoring of saving plans throughout the period (see recommendation two); and

— Maintaining an accurate and up to date contracts register (see recommendation three).

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

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Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18,* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:

Delivery of budgets

The Authority identified the need to make savings of £13 million in 2017/18 and delivered an underspend of £0.4 million during the year.

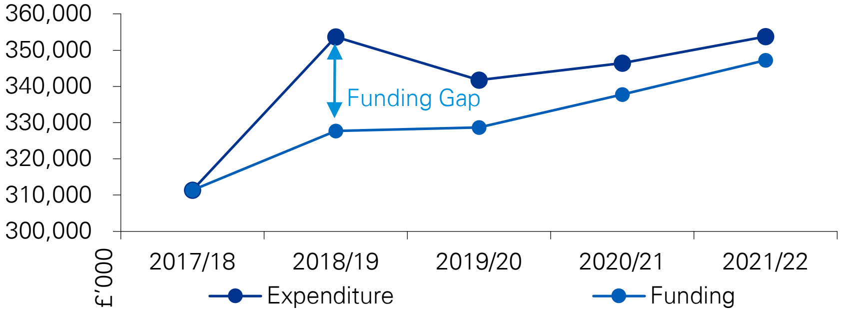
The Authority's budget for 2018/19 was approved at the Council meeting on 20 February 2018 and recognises a need for £26 million in savings of which £4 million will be met as a result of transformation decisions already taken by the Authority. The approved budget included individual proposals to support the delivery of the overall savings requirement. Further savings of £31 million will be required over the period 2019 to 2022 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

Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.

The Authority reported a small underspend position on its net expenditure budget for 2017/18. This enabled the General Fund balance to increase to £12.9 million as of 31 March 2018.

The Authority's MTFP details a balanced budget for 2018/19 including savings of £26.0 million in year, all of which have been 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 £54.2 million by 2020/21. Whilst the Council has identified areas to deliver savings, we believe there is greater scope to monitor and track these projects to ensure accountability and progress reporting.



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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken (cont.):	**Delivery of Budgets (cont.)** As part of our additional risk based work, we have reviewed the controls the Authority has in place to ensure financial resilience, specifically that 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. In addition we have considered the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects. We have raised two recommendations in relation to the tracking of savings plans and updating contracts register (see Appendix 1).

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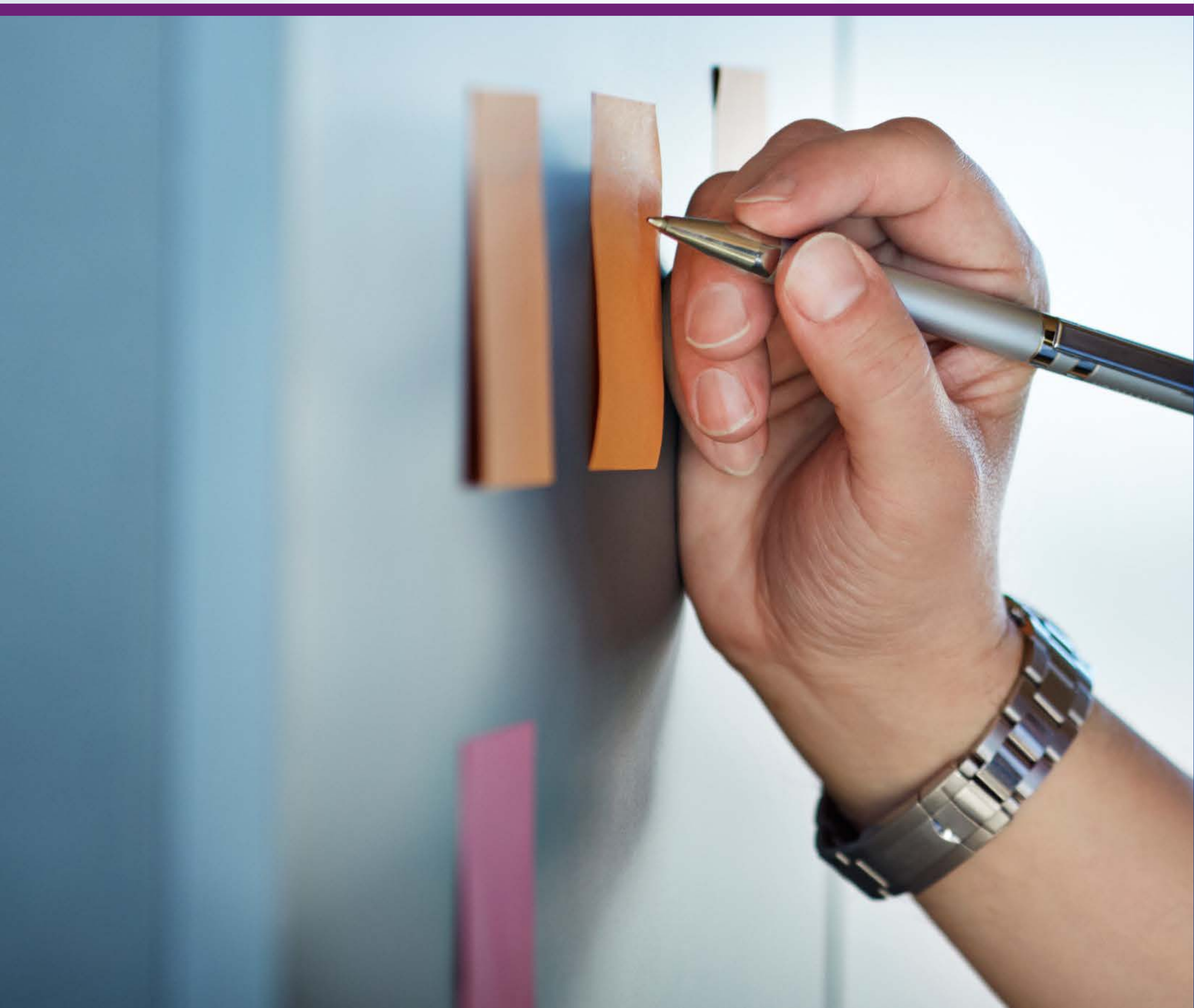
Appendices



Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a small number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

High	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	Medium	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 2	Low	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 1

No.	Risk	Issue & Recommendation	Management Response
1	Medium	***Related Parties Audit Trail*** The Council is required by IAS 24 to disclose related parties to draw attention to the possibility that its financial position may have been affected by the existence of related parties. The Council currently keeps a list of member's interests on the website in order to identify related parties. However, upon audit testing, it was identified that the original submissions are not kept. ***Risk*** The Council do not currently have an auditable system of capturing related parties. This is important to ensure that declarations are updated and complete. ***Recommendation*** The Council should introduce a method to ensure that original declarations are retained and ensure that this can be subject to audit.	The process will be reviewed and amended as appropriate. ***Responsible Officer*** Paul Kelly – Head of Democratic Services ***Implementation Deadline*** 31 December 2018

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Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	Medium	***Outdated Contracts Register*** The Council currently has an outdated contracts register. For example, there is a contract still listed for one supplier which was ended in FY 2016. ***Risk*** A contracts register acts as an important financial document to monitor key business transactions and ensure financial statements reflect Council arrangements. ***Recommendation*** The Council should ensure that the Contract register is updated and continues to be amended upon the creation or cessation of contracts.	The Contracts Register is published on a quarterly basis with the last version published on in March 18. It was noted that an expired contract was included within the register which was an oversight and has now been removed. To manage the risk of old contracts being included within the contract register the Strategic Procurement Hub Team will now include a monthly check within its processes and procedures to review the Contracts Register and remove any such obsolete contracts. ***Responsible Officer*** Wayne Welsby – Head of Strategic Procurement ***Implementation Deadline*** 31 December 2018
3	Low	***Tracking of Budget Savings*** The Council is facing an unprecedented level of savings to deliver in the 2018-19 financial year, with further savings required until 2020-21 in order to deliver a balanced budget. We recognise that the Council has a strong track record of delivering against its savings plans through a RAG rating approach. Due to the level of savings required going forward however it is likely that the Authority will need to monitor savings plans on a more granular level in order to ensure that it delivers its budgets. ***Risk*** The Council has a good historical record in achieving planned savings, however, these are likely to be increasingly difficult to achieve and will require increased monitoring to identify areas of slippage. ***Recommendation*** The Council should continue to monitor budget savings and ensure this is performed at a sufficiently granular level as to ensure savings performance is tracked at an individual project level. This will help ensure accountability of delivery and will ensure there is appropriate time to adapt for cases of underperformance. We are aware that the Council has already begun a revised and improved process to ensure this is completely on a timely period throughout the year.	The Council will continue to monitor budget savings. As mentioned in the recommendation we have already strengthened this monitoring process due to the level of savings in the 2018/19 budget. Reports will be taken regularly to ensure accountability and delivery. ***Responsible Officer*** Ian Duncan – Interim Director, Finance & Procurement Matthew Tiller – Chief Accountant ***Implementation Deadline*** Already implemented

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Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our final audit	-

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	1	**IT Control Failures** 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 creating a potential for 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. 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.	We have used internal KPMG IT specialists to perform testing over the Council's IT environment during the year. It was found that there was appropriate monitoring of SAP_ALL access by the Council. We also confirmed that the level of access to the Northgate underlying database had also been reviewed. Whilst we identified a number of more minor issues that could be improved, none of these warranted communication to the Audit Committee. All matters have been fully communicated to management for resolution. **Status:** Closed.

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Appendix 3:

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 minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

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 2018. 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 – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			DR Sundry Debtors 3,079	CR Sundry Creditors (3,079)		There was a balance of school debtors netting off the sundry creditors balance. A reclassification has been raised to ensure the balance is reported on a gross basis.
	Nil	**Nil**	**DR** **3,079**	**CR** **(3,079)**	**Nil**	**Total Impact of Adjustments**

Unadjusted audit differences

We have not identified any unadjusted audit differences for the year ended 31 March 2018.

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Appendix 3:

Audit differences (cont.)

Adjusted audit differences – Pension Fund

The following table sets out the significant audit differences identified by our audit of Wiltshire Pension Fund's financial statements for the year ended 31 March 2018. 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 2: Adjusted audit differences – Pension Fund (£'000)

No.	Fund Account	Assets	Liabilities	Reserves	Basis of audit difference
1	DR Change in market value 3,565 CR Management expenses (3,565)				Management had double-posted a transaction to recognise investment manager transaction costs. This adjustment amends that by reversing one of the transactions. The effect is to increase the change in market value and to decrease management expenses, with no net effect on the fund account.
	Nil	**Nil**	**DR**	**CR**	**Total Impact of Adjustments**

Unadjusted audit differences

We have not identified any unadjusted audit differences for the year ended 31 March 2018.

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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 2017-18*, presented to you in February 2018.

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, an individual difference is considered to be clearly trivial if it is less than £0.600 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 £25.000 million which is approximately 1.0 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.750 million for 2017-18.

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Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted audit differences with a total value of £3.079 million in the Authority's financial statements. See page 31 for details. These adjustments result in no impact on either the reported surplus on provision of services or the General Fund balance. Our audit of the Pension Fund also identified one adjusted audit differences with a total value of £3.565 million. See page 32 for details. These adjustments result in a net increase of £3.565 million in the reported net increase in the fund.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's and Pension Fund's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see pages 5-7). We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing as a result of our IT work and also verbally during the Final Audit Meeting on 28 June 2018.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.

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Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

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Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WILTSHIRE COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

In relation to the audit of the Pension Fund financial statements the conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard is subject to review by an engagement quality control reviewer, who is an Audit Director not otherwise involved in your affairs

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as shown on the following page.

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Appendix 6:

Declaration of independence (cont.)

	2017-18 £	2016-17 £
Audit of the Authority	167,420	167,420
Audit of the Pension Fund	24,246	24,246
Additional work related to 2016-17 IT issues[1]	-	13,142
Total audit services	**191,666**	**204,808**
Allowable non-audit services	2,700	6,250
Audit related assurance services	8,500	6,000
Mandatory assurance services	16,916	21,165
Total Non Audit Services	**28,116**	**33,415**

[1] This amount was charged to the Authority in 2017-18 following final determination by PSAA Ltd.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.14:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that there were no non-audit services which required approval by the audit committee.

In addition, no approvals have been required from PSAA as no non-audit services above the relevant thresholds were provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

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Appendix 6:

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Review of the Medium Term Financial Plan	**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.	Fixed daily rate	2,700	-
Audit-related assurance services				
Grant Certification – Homes England PPA Compliance, Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide an independent report on each of these returns by way of Agreed Upon Procedures. As such we do not consider them to create any independence threats.	Fixed Fee	8,500	6,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	21,165	16,916

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

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Declaration of independence (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

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Appendix 7:

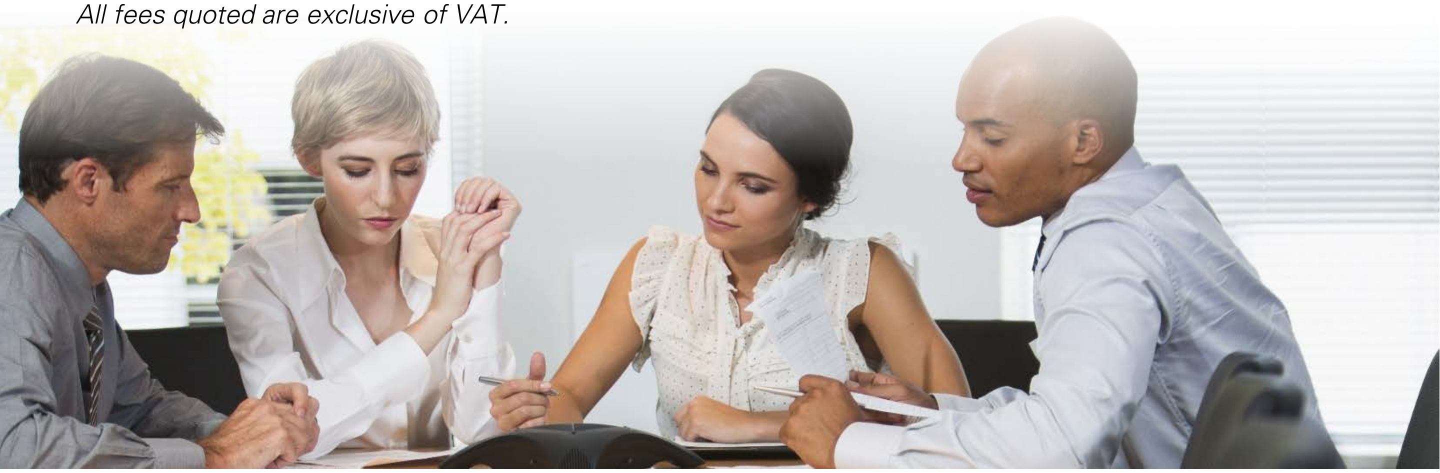
Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £167,420 plus VAT (£167,420 in 2016/17), which is consistent from the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2017. The planned scale fee for this is £16,916 plus VAT (£21,165 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £8,500 plus VAT (£6,000 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Wiltshire Council)	167,420	167,420
PSAA Scale fee ([Wiltshire Pension Fund)	24,246	24,246
Additional fee in relation to 2016-17 IT Issues	-	13,142
Total audit services	**191,666**	**204,808**
Mandatory assurance services		
Housing Benefits Certification (work planned for September 2018)	16,916	21,165
Total mandatory assurance services	**16,916**	**21,165**
Audit-related assurance services		
Teachers' Pension Return (work planned for August 2018)	3,000	3,000
Pooling of Housing Capital Receipts (work planned for August 2018)	3,000	3,000
Homes England PPA Compliance (Completed)	2,500	-
Total audit-related assurance services	**8,500**	**6,000**
Allowable non-audit services		
Medium Term Financial Planning Review	2,700	6,250
Total allowable non-audit services	**2,700**	**6,250**
Total non-audit services	**28,116**	**33,415**
Grand total fees for the Authority	**219,782**	**238,223**

All fees quoted are exclusive of VAT.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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 Jonathan Brown, 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, 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 3HZ.

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