



Wiltshire Council

Report to the Audit Committee on the audit for the year ended 31 March 2019

Issued 23 July 2019 for the meeting on 24 July 2019

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Introduction

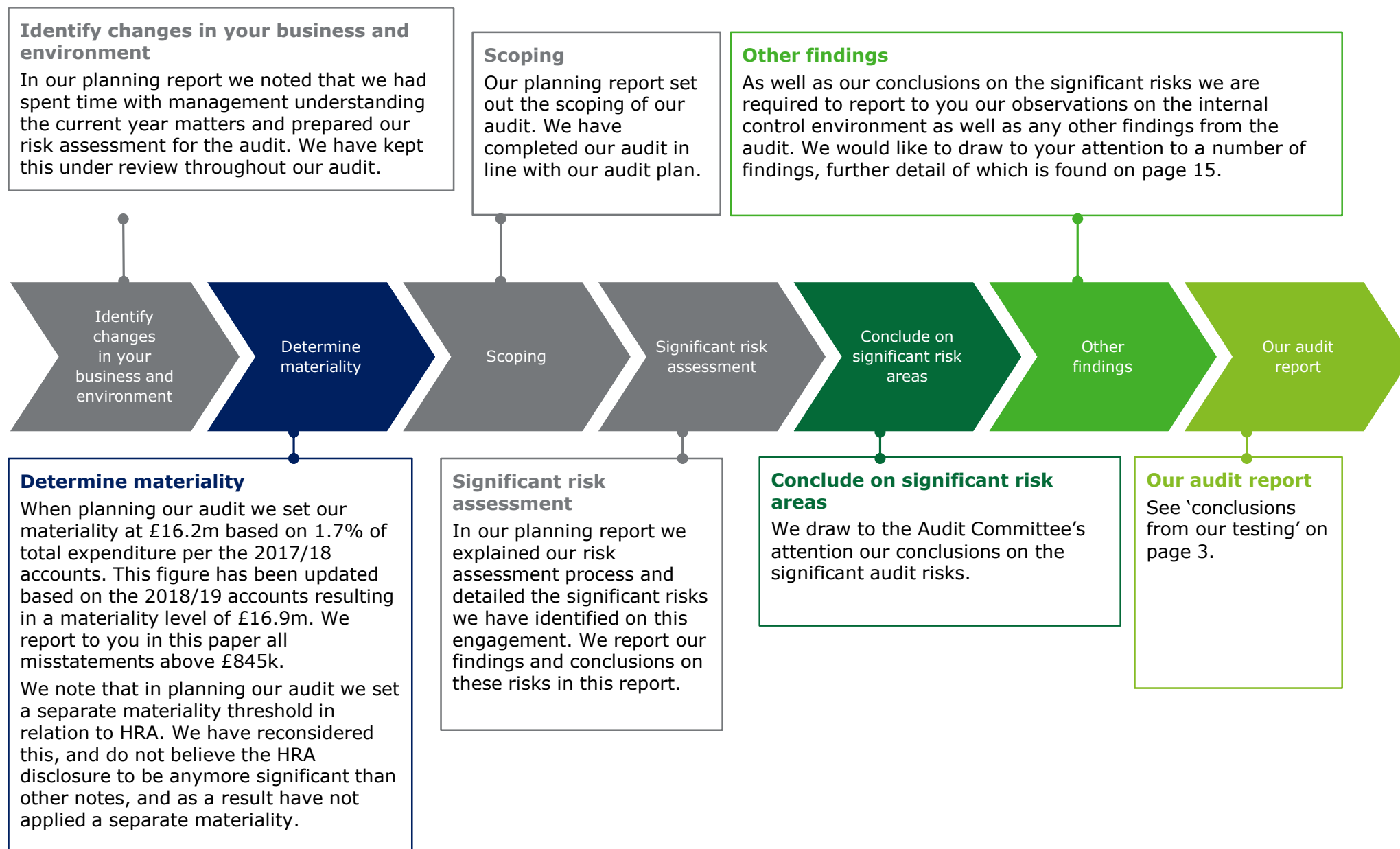
The key messages in this report

I have pleasure in presenting our final report to the Audit Committee Wiltshire Council (the Council) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2019.












Status of the audit	<p>Our audit (including the audit of the pension fund) is in progress with following principal matters outstanding:</p> <ul style="list-style-type: none">• completion of PFI and note 15 testing;• completion of pension fund work as set out on page 14;• review of IAS 19 letter from Wiltshire Pension Fund auditors;• receipt of final financial statements;• completion of internal quality assurance procedures and clearance of review notes on file;• receipt of signed management representation letter; and• our review of events since 31 March 2019 through to signing. <p>We will provide an oral update on the completion of these matters at the meeting of the Audit Committee.</p>
Conclusions from our testing	<p>We will need to update the Audit Committee on the form of our opinion at the meeting following the completion of the outstanding work and the resolution of the issues identified in relation to property valuations on page 7.</p> <p>We note that we are in the process of finalising some further recommendations in relation to property valuations with management, and as a result these are not included within this paper.</p>
Narrative Report & Annual Governance Statement	<ul style="list-style-type: none">• We have reviewed the Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.• We have undertaken an initial review of the Council's Annual Report with no significant issues identified.• The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.
Duties as public auditor	<ul style="list-style-type: none">• We did not receive any queries or objections from local electors this year.• We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts (WGA)	<ul style="list-style-type: none">• The Council is a sampled component for WGA reporting.• We are required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office (together with our audit opinion and key issues from our audit). We are yet to undertake our work on WGA given the deadline for this is not until 13 September 2019.

Our audit explained

We tailor our audit to the Council and your strategy



Council Accounts - Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Property Valuations			D+I	Requires improvement (see slide 18)	TBC	TBC	6
Completeness and Cut-off of Expenditure			D+I	Requires improvement (see slide 18)		Satisfactory	8
Defined Benefits Pension Scheme			D+I	Requires improvement (see slide 18)		Satisfactory	10
Management Override of Controls			D+I	Requires improvement (see slide 18)		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Property valuations

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at their fair value at the balance sheet date. These fair value valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements

Property assets, excluding County Farms, are re-valued as part of the Council's rolling programme for the re-valuation. The valuations are carried out by GVA Grimley, Chartered Surveyors (the valuer).

The financial year to 31 March 2019 represented part of a three year rolling programme. The valuation was prepared ahead of year-end as at 28 February 2019. The valuer states explicitly in their report that no material movements in value have occurred between 28 February 2019 and 31 March 2019.

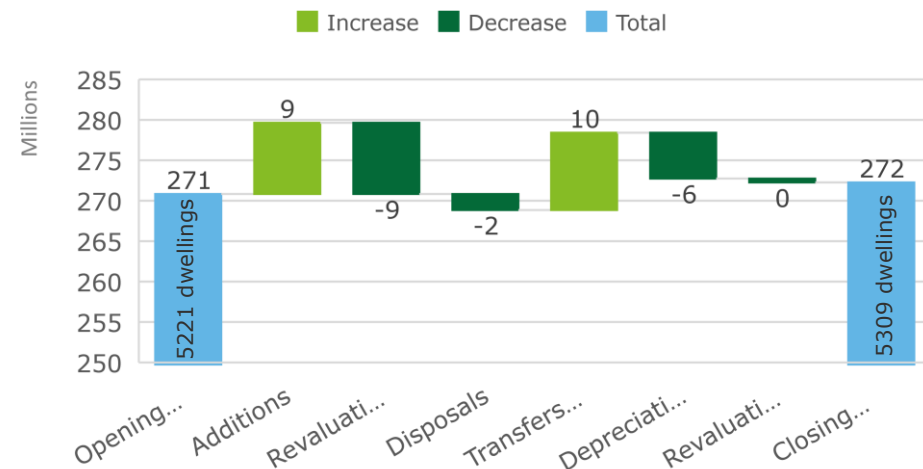
The property assets or classes of assets subject to valuation for 2018/19 were:

- Council Housing (valued each year)
- HRA Garages
- The Investment Estate (valued each year)
- Surplus Assets held for sale
- Surplus Assets not held for sale
- Primary Schools
- Foundation Schools
- Secondary and Special Schools
- PFI Schools
- Children's Centres
- Changed and Miscellaneous Assets

The valuer has identified three impaired assets as follows:

- Melksham House (100% impaired with a prior value of £325k due to closure)
- Christie Miller Leisure Centre (100% impaired with a prior value of £885k due to closure)
- Chapmans Building (East Wing Complex) Library HQ (100% impaired with a prior value of £800k due to building being demolished).

Council dwellings and garages including land



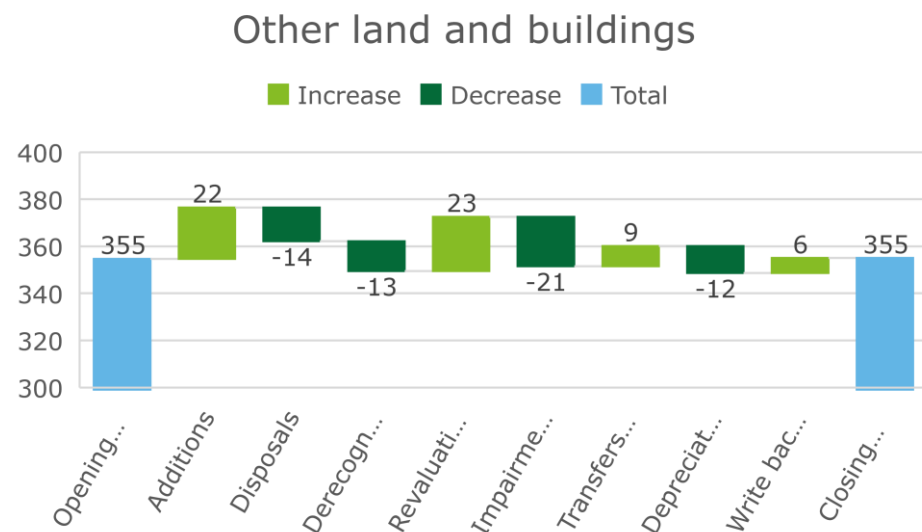
The main movements in value are the transfer from assets under construction of £10m and depreciation of £6m, as the additions spend has been classed as non-enhancing (hence the plus £9m and minus £9m on additions and re-valuations).

The £10m transfers from assets under construction are dwellings. The main increases are 22 additional 2 bed homes, 32 additional 1 bed flats and 51 additional 2 bedroom flats. This was offset by 32 house sales under the right to buy scheme.

The valuation of the existing housing stock by the valuer resulted in no movement in the nbv compared with the previous year. The Council Houses are valued on the basis of Existing Use Value-Social Housing (EUUV-SH) so the average value is quite different from the market value of a private dwelling.

Significant risks (continued)

Property valuations



The main movements in value are additions of £22m – Stonehenge Secondary School extension (£5.6m), the Vale Community Campus new leisure centre (£4.3m) and St Michael’s Primary School (£4m).

£14m of disposals – this includes a number of disposals such as Great Middle Green Farm (£1.4m) and Oak Tree Field Gypsy Site (£1m).

£13m derecognised assets which are schools becoming academies - with the largest being St Michael’s Primary School.

£23m of increases in value including Stonehenge Upper School (£4.4m), Greentrees Primary School (£3.6m) and Longleaze Primary School (£1.4m).

£21m impairments (assets where fair value has decreased) – Stonehenge Secondary School (£6.2m) and the Vale Community Campus (£5.9m).

£9m of assets which were under construction now being operational – St Michael’s Primary School (£4.4m) and the Vale Community Campus (£3.5m).

£12m of depreciation.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation work by the valuer.
- We reviewed revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council’s property assets including considering the assumptions made of movements between the valuation being performed in February 2019 and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.

Deloitte view

We’ve reviewed valuations performed in the year and confirmed with our valuation specialists that reasonable assumptions have been made.

We’ve identified an issue in relation to how revaluation movements are recorded in note 15 which has led to a currently significant unquantified overstatement of assets cost balances and an equal overstatement of accumulated depreciation. We’re still understanding any potential impact on NBV.

In addition to the above, we have not been able to obtain a breakdown of the opening revaluation reserve balance due to SAP system limitations and as a result of this we are currently unable to conclude that impairments have been allocated correctly between the CIES and the revaluation reserve.

We are also awaiting a response from management as to whether a record has been maintained of impairment amounts posted to the CIES in previous years in order for us to understand whether any of our sampled items with an upwards revaluation should have had the revaluation movement posted in the CIES.

We have identified a number of control improvements detailed from page 18.

Significant risks (continued)

Completeness and Cut-off of Expenditure

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, particularly in relation to year end accruals and provisions balances.

There is an inherent fraud risk associated with the under-recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially understate expenditure through the year end accruals and provisions balances, in an attempt to report a more favourable year end position.

Deloitte response

- We obtained an understanding of the design and implementation of the key controls in place to ensure the completeness of accruals and provisions.
- We performed focused testing in relation to the completeness of accruals through testing of post-year end invoices raised and payments made which is substantially complete at the time of this report.
- We reviewed provisions to assess completeness including consideration of understatement of individual provisions.

Provisions

The provisions disclosed in Note 29 are as follows:

	Legal Claims £000	Insurance Claims £000	Business Rate Retention Scheme Appeals £000	Termination Benefits £000	Other £000	Total £000
Balance at 1 April 2018	(474)	(1,266)	(1,804)	(329)	(144)	(4,017)
Additional provisions made in year	(25)	(423)	(1,884)	(71)	0	(2,403)
Amounts Used in year	0	330	1,804	267	144	2,545
Unused amounts reversed in year	0	217	0	62	0	279
Balance at 31 March 2019	(499)	(1,142)	(1,884)	(71)	0	(3,596)

There were no material movements in the provisions in the table above.

We also considered the provision for credit losses (formerly known as the bad debt provision).

Accruals

Accruals are not separately identified within the accounts, as noted in our response above accruals form part of our risk identified. Our testing did not identify any understatement and we note the balance has increased.

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Provision for credit losses

The provision for credit losses (formerly known as the bad debt provision) is disclosed in Note 26 as shown below:

	2018/19	2017/18
Less: provision for bad debts		
General Fund debtors	(17,867)	(12,002)
Housing Rent arrears	(1,556)	(1,349)
Council Tax arrears	(2,744)	(2,540)
Business Rates Arrears	(245)	(351)
Total Bad Debt provisions	(22,412)	(16,242)

The General Fund provision has increased from 17/18 because of two specific NHS debts for £3.9m which have been fully provided against (relating to invoices to Wiltshire CCG and West Hampshire CCG due to Continuing Health Care legal challenge) and a £1m increase in debtors older than 2 years which have also been fully provided.

Sundry debtors have increased by £4.2m since 2017/18 and the provision has increased £2.0 after stripping out the NHS debtor provision. Therefore the provision as a percentage of sundry debt is unchanged at 39%.

Significant risks (continued)

Completeness and Cut-off of Expenditure

Deloitte view

Overall, we have concluded that expenditure is not materially misstated. We have identified a control improvement detailed on page 18.

Significant risks (continued)

Defined benefits pension scheme

Background

The Council participates in the Local Government Pension Scheme as a member of the Wiltshire Pension Fund for which it is also the administering Council. There is a risk that the assumptions used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.

The Council's element of the net pension fund liability has increased from £550.8m at 31 March 2018 to £613.8m at 31 March 2019 for the reasons shown to the right.

The Council's pension liability is affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The impact of this has been assessed as not material and the Council have included a contingent liability on this. An unadjusted misstatement has been noted on page 32.

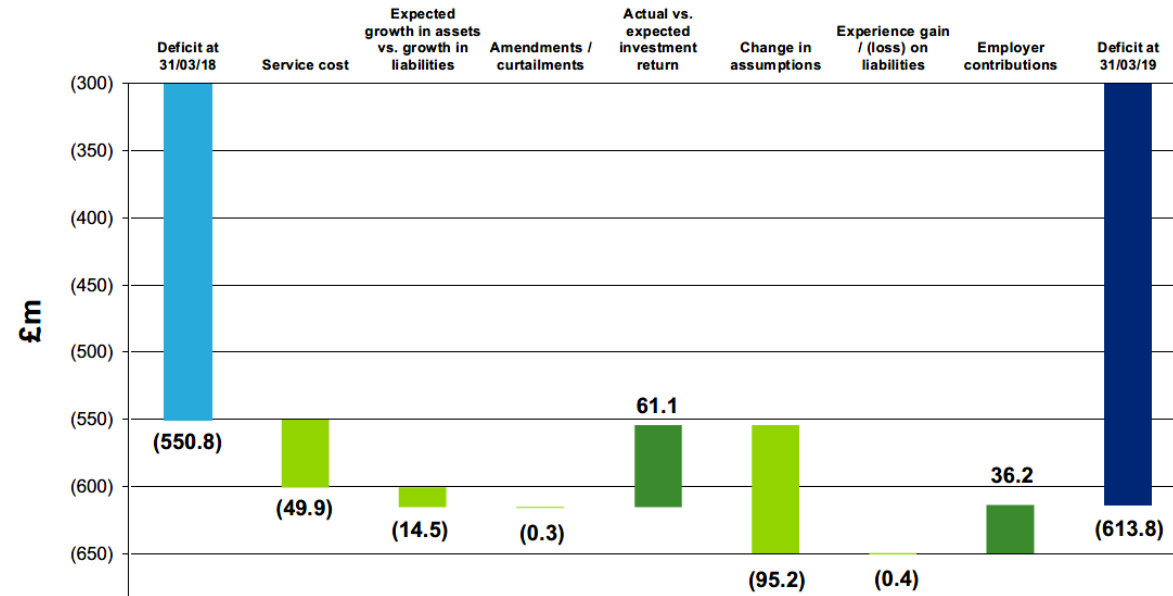
Deloitte response

- We obtained understanding of the design and implementation of the key controls in place in relation to review of the assumptions by the Council.
- We evaluated the competency, objectivity and independence of Hymans Robertson the actuarial specialist.
- We reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used.
- We reviewed the pension related disclosures in respect of actuarial assumptions in the financial accounts for consistency with the Actuary's Report.

Deloitte view

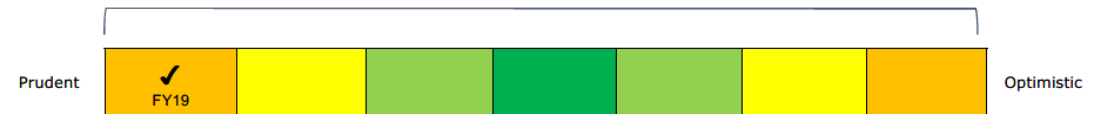
We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the prudent side of the range of assumptions when compared with the Deloitte benchmarks. We have identified a control improvement detailed on page 18.

Movement in position over the year



	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.40	Reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	3.50	3.25	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.25	Prudent
Salary increase (% p.a.)	2.80	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.50	2.50	Reasonable
Pension increase in deferment (% p.a.)	2.50	2.50	Reasonable
Mortality	Club Vita base tables CMI 2013 projections with a 1.25% p.a. long-term trend	Fund-specific base tables CMI 2018 projections with a 1.25% long-term trend.	Reasonable Very prudent

Strength of the overall assumptions compared to Deloitte benchmarks



Significant risks (continued)

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities.

This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

- We tested the design and implementation of key controls in place around journal entries and key management estimates.
- We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we considered to be of increased interest.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We did not identify any significant transactions that were outside of the normal course of business for the Council.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger. We have not identified any other adjustments made in the preparation of financial reporting which are outside of the general ledger. No issues were noted.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

We have identified a control improvement detailed on page 18.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: completeness of expenditure, valuation of the Council's property, the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

Other matters

Value for money

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte response

- We obtained an understanding of the Council's Medium Term Financial Plan, budget for 2019/20.
- We reviewed, Annual Governance Statement and relevant Council papers and minutes. We will review the Council's draft Narrative Report now that this has been received.
- We considered the Council's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19.
- We have reviewed the findings of the Ofsted and Care Quality Commission inspection of the local area of Wiltshire to judge the effectiveness of the area in implementing the disability and special education needs reforms as set out in the Children and Families Act 2014. These findings were sent to the Council in March 2018 and our review of these findings identified no specific value for money risks.
- In addition, the Engagement Partner met with the Leader of the Council in November 2018 to discuss issues relevant to value for money.
- Based upon the work performed in our risk assessment, we did not identify any significant audit risks consistent with our Planning Report.

Deloitte view

No significant value for money risks have been identified to date.

Other matters

Impact of the Salisbury incident

Matter identified	We identified the two incidents of Novichok poisoning which took place in Salisbury and Amesbury in March 2018 and in June 2018 as areas of audit interest due to the potential impact on the valuation of the Council's properties.
Deloitte Response	<p>The Council issued a statement on 1 March 2019 stating that all properties subject to clean up were now all clear. As a result the Council do not think any properties are impaired at the balance sheet date due to contamination. In challenging managements assertion we have not identified any evidence to the contrary.</p> <p>We have further considered whether any assets in the affected area are valued on the basis of commercial revenue which may have been affected by reduction in footfall following the attacks. The Council specifically asked its valuer to consider whether the car parks in Salisbury should be impaired as a result of changes in use and the decision to offer free car parking to support the local economy post the incidents.</p> <p>We have reviewed the asset register to ascertain the properties owned by the Council in Salisbury and Amesbury and considered the value of these assets along with their valuation basis.</p>

Deloitte view

We are satisfied that the valuation of properties which may have been impacted as a result of attacks are not materially misstated.









Wiltshire Pension Fund

Results from our audit

 Significant risk
 Audit focus area

When planning our audit we set the following audit quality objectives for this audit: to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting (“the Code”) issued by CIPFA and LASAAC. There have been no changes to our scope, risk assessment or procedures from our January 2019 Planning Report to the Audit Committee.

Materiality was calculated using 1% of Fund net assets at £26m with a clearly trivial threshold of £1.3m.

Risk Area	Risk Type	Fraud Risk	Comment
Management override of controls			We have used our audit analytic software “Spotlight” to interrogate journal entries and have not identified any instances of management override from our audit procedures.
Completeness and accuracy of the asset transfer to Brunel Pension Partnership Ltd			We have reviewed the independently received transition and valuation reports from Brunel with no issues noted.
Completeness and valuation of investments and disclosures			We have tested your investment reconciliations provided by StateStreet as well as receiving all of the Fund’s material valuation statements independently with no issues noted. There were also no issues noted with the valuation of the Funds investments.
Accuracy of retirement benefits and transfers out values			There were no issues noted with any of our substantive procedures however while testing the design and implementation of key controls operating within the Aquila infrastructure we raised a number of general IT control findings as detailed on page 24. We have also raised observations surrounding the membership reconciliation process and the benefit calculation review process as detailed on page 15.

There were no uncorrected misstatements or disclosure deficiencies in the financial statements. The conclusions above are based on the status of our work so far, and we anticipate issuing an unqualified audit opinion, subject to the following:

- Satisfactory closure of our partner and quality assurance review comments on our journals testing;
- Receipt of a signed representation letter from the Audit Committee;
- Satisfactory completion of our post-year end events review;
- Satisfactory completion of our quality assurance reviews;

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Observation	Deloitte recommendation
<p>Pension Fund - We identified that the Pension Manager could not supply a membership number reconciliation between 2017-18 and 2018-19.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation this would enhance the robustness of admin procedures and allow for more accurate financial reporting of the fund account reflecting membership movements and would allow us to audit the movement of member numbers, which we have not been able to do.</p>	<p>It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data.</p> <p>In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible.</p> <p>It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p> <p>In addition we concur with the internal audit recommendations that the Fund should be:</p> <ul style="list-style-type: none">• Reconciling New Pensioners and New Dependants between the Altair Pension system and SAP Pensions Payroll monthly.• Carrying out a full reconciliation of Altair and SAP Payroll to provide further assurance that payments made to pensioners cast and provide the basis for a monthly reconciliation of cumulative balances.• Service to demonstrate that monthly reconciliations are verified, and an advisory recommendation has been made to ensure payment authorisations are always retained or recorded to show who approves each payment.
	<p>Wiltshire Council Response:</p> <p><i>We accept the recommendations in the first 3 paragraphs above.</i></p> <p><i>We are underway with implementing the internal audit recommendations in the 3 bullet points above. The monthly reconciliations and verification are now happening (1st and 3rd bullet point). Bullet point 2 is still outstanding however we expect to implement it in the coming year.</i></p>

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Observation

Pension Fund - The admin team perform a review of all of the inputs for benefit calculations however only a high level reasonableness assessment is performed over the output of the calculations. The team are heavily reliant on the initial design and calibration of Altair to calculate pensions and lump sum benefits.

Deloitte recommendation

Some schemes of the size and nature of the Fund have at least one of the below controls:

1. A formal compliance team whose role it is to check whether the correct decisions have been made through the benefits system. Best practice is to independently test a risk based sample of up to 10% of benefit calculations.
2. A formal pensions internal audit team either through a co-sourced or outsourced arrangement who will focus on a number of activities and include routine benefit calculations periodically in their reviews.
3. A 100% manual check on the different calculation routines impacted by system or actuarial factor updates.
4. A periodic 'deep-dive' which is undertaken by the pensions team on instruction by the audit committee.

Given the size and nature of the Fund and the tailoring of Intellipen specific for Fund purposes we recommend that the AC considers points 1 and 2 above.

Wiltshire Council Response:

We test and check all systems updates to Altair which have any impact on calculations (including all factor table changes) which would give comfort that at the implementation of a calculation routine or any known change, that the system is functioning correctly. We agree that it will not capture any changes to the underlying system after that date, and we will implement a sample check to ensure that the correct process is being followed and that the output of the calculations are correct, on a monthly basis.

Other significant findings (continued)

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Observation

Purchase Order

We note that approximately 80% of purchases do not follow the purchase order process. In these instances, invoices received by the accounts payable team would require an FB60 manual payment processing form to be completed, which is authorised by a line manager in line with the authorised signatory listing. The payment is subsequently processed.

As a result, there is a risk that inappropriate purchases are made if these do not require a PO and authorisation before orders are made. There is also a risk that year end expenditure may not be complete because purchases committed to are not yet available on the finance system.

Deloitte Recommendation

It is recommended that the Council seeks to increase the number of purchases which are going through the purchase order process. It should only be in exceptional instances where a purchase may need to follow a different process.

Wiltshire Council Response:

The Council is reviewing procure to pay procedures and processes in full as part of the overall review of the finance system. This is with a view to substantially increasing the percentage of purchases that go through the purchase order process in future.

Other significant findings (continued)

Internal control and risk management

Observation

Formalising/Evidencing Controls

We were informed of the following processes taking place, which relate to three of our significant risks, but we have been unable to evidence any formal controls in relation to these:

- **Completeness of Expenditure** – we identified that post year end a daily revenue outturn SAP report is run which would be reviewed to help identify any variances against budget and could indicate issues in relation to accruals posted. We have seen a copy of the budget monitoring report on 9 April 2019 was sent to each of the Heads of Finance but we have been unable to evidence the review of this report.
- **Property Valuations** – we identified that a spreadsheet is maintained which includes the information received from the Valuer and is compared with the information within the Fixed Assets Register (FAR) to highlight any differences. We have been unable to evidence a review and sign off of the reconciliation between the FAR and Valuer's Report, a review of the Valuer's Report or any controls in place which provide assurance over the information held by the Valuer in relation to building areas.
- **Defined Benefit Pension Scheme** – we identified that the IAS 19 report received from the Actuary is reviewed against the prior year report as part of a sense check, using a spreadsheet, with differences then investigated and understood. We have been unable to evidence a formal review of the IAS 19 figures for 2018/19.
- **Journals Segregation of Duties** - we identified that staff with post access can post a journal without the involvement of a second member of staff. In addition, we note that where spreadsheets are used to post journals, a staff member with 'park' access only can post these journals without authorisation. In order to mitigate against this a retrospective review of journals posted is undertaken but this does not formally record who has undertaken the review and the date of their sign off.

Deloitte Recommendation

It is recommended that the Council considers the processes listed to the left and implements a formal control element within these.

Wiltshire Council Response:

Completeness of Expenditure – *daily reports were issued to Heads of Finance for review throughout April. Figures were amended as appropriate following this regular review process. A final review meeting between all Heads of Finance and Director of Finance & Procurement was held. We will look to minute this meeting in future.*

Property Valuations – *a review was carried out by the Head of Finance (Corporate) as part of the preparation of the relevant revaluations note to the accounts. A delay to this review was experienced this year due to the delay of the final valuation information being sent to the Council by the external valuer.*

Defined Benefit Pension Scheme – *the IAS19 report is reviewed by senior officers within Finance and any queries raised with the actuary where appropriate. We will document the review in future.*

Journals Segregation of Duties - *Our journal posting procedures allow for a small number of senior accountancy staff to post journal directly. There is a recognised system issue where spreadsheets are used. A retrospective check is undertaken by the Head of Finance Corporate. We keep formally record any changes following the reviews.*

Other significant findings (continued)

Internal control and risk management

Observation

Formalising/Evidencing Controls

We identified that a spreadsheet is maintained by the council, stating a listing of assets along with the date they were last revalued. This spreadsheet is monitored by the Head of Finance (Corporate) to ensure that all assets are revalued on at least a 5-year rolling basis in line with CIPFA guidance, and preferably on a 3-year rolling basis in line with Wiltshire Council policies. On inspection of the documentation, we have been able to see that it is up to date for 2018/19, however we have not been able to evidence, the completion of the review of this spreadsheet.

Deloitte Recommendation

It is recommended that evidence is retained to show the review of this spreadsheet on an annual basis in order to help provide assurance that the listing of assets to be revalued which have been communicated to the valuer is complete.

Wiltshire Council response:

This spreadsheet is completed by a Head of Finance within Accountancy. We will introduce a review stage that is evidenced in future.

Property Valuation Findings raised by Deloitte Internal Specialist

As part of our audit we engaged our internal property specialists, Deloitte Real Estate, to undertake a review of the current year property revaluations. As part of this review a number of recommendations were raised as detailed to the left.

Impairment Review

It is recommended that in the future the Council documents the process either in the form of minutes or an impairment review paper detailing the discussions between the Finance team, Estates and their appointed valuer confirming all the points that are considered in their impairment review, i.e. build cost movements, changes in the property market, physical changes to the assets etc. and the actions taken to impair any relevant assets or justifications for the conclusions reached if no impairment is deemed necessary.

Wiltshire Council response:

An electronic record of the assets identified to be discussed as part of the impairment review discussion between Accountancy, Estates and the external valuers is retained. We will in future minute this discussion for formal agreement between all parties.

Other significant findings (continued)

Internal control and risk management

Observation	Deloitte Recommendation
Property Valuation Findings raised by Deloitte Internal Specialist (continued)	<p>Preparing Valuations</p> <p>It is recommended that these points are fed back to Wiltshire Council's valuer and the Finance team ensure that they can consider them prior to preparing the valuations next year:</p> <p>a) More detailed information on the extent of the inspection of the assets valued in the year should be provided and the Council ensures that the valuer undertakes inspections of at least a representative sample of properties. We are aware that no inspections were undertaken by the valuer for this year's valuations, albeit the valuer has confirmed that all the assets have been inspected in previous years;</p> <p>Wiltshire Council response:</p> <p><i>We will request that at least a representative sample of properties are inspected by the external valuer in future.</i></p> <p>b) We understand the valuer was not been instructed to provide economic life information or land and building value apportionment for the Non-Specialised Operational PPE assets. We understand that this is normally required for accounting depreciation purposes. Accordingly we would recommend that the valuer provides this information;</p> <p>Wiltshire Council response:</p> <p><i>We will discuss this requirement with the valuer and document in future.</i></p> <p>c) Refinements are required as to how the valuer has approached the valuation of the Specialised Operational Assets, especially in relation to consideration on Modern Equivalent Asset (MEA) considerations. The valuer has confirmed that rather than determining the MEA building and site sizes with the Council, 'due to time constraints in preparing the valuations it has generally been assumed that the asset will be reconstructed with same built area and site area unless specifically advised or considered to be otherwise'. In terms of best practice and as set out by the RICS in their guidance note on DRC valuations MEA considerations should be factored in on all Specialised Assets. Given this position we would recommend that the Council's commissions their valuations as early as possible to allow the valuer and the Council to determine the position fully whenever such assets are to be valued; and</p> <p>Wiltshire Council response:</p> <p><i>Delays were experienced in the return of information from the external valuer during 2018/2019. We will ensure requirements for future valuations are discussed and agreed with the external valuer as well as agreeing appropriate timescales for the flows of information to/from all parties.</i></p>

Other significant findings (continued)

Internal control and risk management

Observation	Deloitte Recommendation
Property Valuation Findings raised by Deloitte Internal Specialist (continued)	Preparing Valuations (continued) <p>It is recommended that these points are fed back to Wiltshire Council's valuer and the Finance team ensure that they can consider them prior to preparing the valuations next year:</p> <p>d) One of the asset valuations that we selected for sampling was an investment asset, a long ground lease investment of a shopping centre (Emery Gate Shopping Centre, Chippenham). The Council is entitled to receive a set percentage of rents received from the occupational tenants of the shopping centre and the Wiltshire County Council Asset Valuation Review (Year End 31 March 2019) rent that the Council receives is subject to review every year. Following questions raised with the valuer we understand that the Council does not benefit from receiving detailed information from the head-tenant on the occupational leases and income and in particular does not obtain a tenancy schedule and current rental information. The valuer has confirmed that whilst full particulars of the occupational leases is required to be provided to the Council under the head-lease agreement the Council confirmed to the valuer that they have never received this information although they have now requested the information but to date it has not been forthcoming. The valuer has confirmed that this is now being escalated to legals. Whilst the valuer has confirmed that the Council have set up their own schedule, based on the information they receive when they are required to give consent to under-lettings etc., we would recommend that the Council pursues this issue to ensure that they obtain full oversight of the occupational tenancy details and passing rents and that this information is provided to the valuer so that it can be considered and factored into the valuation of the asset. This position applies to all ground lease investments. Accordingly we would recommend that the Council reviews what information is currently received from the head-tenant and pursue the position if the information is not sufficiently detailed.</p> <p>Wiltshire Council response:</p> <p><i>Agreed. The Council is already taking action to address this recommendation.</i></p>

Other significant findings (continued)

Internal control and risk management

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment. Our scope included limited review on key IT Controls for SAP and the underlying database. Set out below are our findings:

Observation

Password settings are not sufficiently strong for SAP and underlying database

Through inspection of the security settings, the following improvement opportunities were identified around authentication parameters:

- On SAP database layer, it was noted that for the privileged generic account (erp) no password settings are enforced. Related account identified to have admin level privileges on both server level and database level.
- On SAP application, end users are not enforced to use letters and specials to ensure that they will use complex passwords since the following parameters are set to be zero:
 - min_password_letters
 - min_password_specials
- Auto logout option after certain period of inactivity is not enabled in SAP since below parameter is set to be zero:
 - gui_auto_logout

Disaster Recovery Plan has not been formally tested during the last financial year

It was noted that a Disaster Recovery Plan is in place at Wiltshire County Council and was last updated in December 2018. During our discussions with management, it has been noted that the updated plan has not been formally tested within the last financial year.

Deloitte recommendation

Authentication control weaknesses increase the vulnerability of accounts to unauthorised access attempts and should be addressed, either through implementing stronger password parameters in the system or, if this is not possible, through alternative monitoring controls to increase the chance of detecting any such attempts.

Wiltshire Council Response:

This area is being investigated.

We have added parameters for minimum password letters and minimum password special characters so that passwords now must contain one of each.

With regard to the auto logout option, we have not enabled this as we have auto-locking on Windows after a period of 5 minutes. This means that a laptop requires a password to access it if it is not used for a period of 5 minutes or more.

We, therefore, accept the risks associated with this particular parameter (gui_auto_logout) not being implemented as the risk of not having it in place is minimal.

We recommend that disaster recovery tests should be conducted on a regular basis to ensure the plan works and to meet the organisation's recovery point objective (RPO) and recovery time objective (RTO) requirements. Testing procedures should integrate DRP testing results into planned maintenance and staff training programs.

Wiltshire Council Response:

Noted. We are aware of the requirement to test these procedures.

Other significant findings (continued)

Internal control and risk management

Observation

Access to critical transaction is enabled to an excessive number of employees in the Company:

Through an inspection of the access for privileged transactions on SAP, it was noted that there are 151 users with access to critical tcode SA38. Although through SA38 users can not modify any program, they can still call all the programs that the transactions execute which may result in segregation of duties conflict for business process controls. This information can subsequently be used to execute the programme.

Ability to both develop and implement changes are granted to core services team in SAP:

Members of the Core Services (SAP Virtual Support) team have the ability to develop and implement changes within SAP. Despite there being a formal change management process in place (including testing and sign off), it is possible for users to bypass this and develop and implement their own change.

Deloitte recommendation

We recommend that SA38 access to be removed from business users. If users are required to run a program, we recommend creating a custom transaction and assigning related transaction codes to end users, following access right provisioning policy in the Council.

Wiltshire Council Response:

Noted.

We will review access to SA38.

Together with change management approval and testing controls that already exists within the Company, we recommend segregating development and transport roles for members of the support team. In case segregation of duties can not be maintained due to team structure, we alternatively recommend management to implement monitoring controls to ensure that for all changes transported into the live environment, change management process is followed and documentation recorded to demonstrate this.

Wiltshire Council Response:

It is currently the case that SAP virtual team members undertake developments in the Development environment and then create transports for these developments to be moved to the Production environment. The actual moving of these transports is undertaken by CGI, our third-party support, ensuring a segregation of duties. In addition, each transport requires that a pro-forma be completed and all details of the transport entered onto a Transport spreadsheet so a record is maintained.

Other significant findings (continued)

Internal control and risk management

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment. Our scope included a limited review on key IT Controls for Wiltshire Pension Fund and Altair, its underlying database. Set out below are our findings:

Observation	Deloitte recommendation
<p data-bbox="168 595 981 620">Insufficient level of user access provisioning controls:</p> <p data-bbox="168 676 1077 734">The following opportunities for control improvement were identified pertaining to user access right management controls:</p> <ul data-bbox="168 746 1108 1177" style="list-style-type: none"><li data-bbox="168 746 1108 842">- No user access right reviews are performed to ensure that existing users have the appropriate access based on their job roles and responsibility.<li data-bbox="168 855 1108 976">- The leavers' process on the Altair platform is not formally documented. No notifications are received from HR and access is removed based on the Systems Team's knowledge of the current employees at Wiltshire Pension Fund.<li data-bbox="168 989 1108 1177">- The starters' process on the Altair platform is not formally documented. No formal documentation is available with regards to which seniority of access is appropriate for each user level. We have been further informed that the role profiles available within Altair do not match up exactly with job titles in use at Wiltshire Pension Fund.	<p data-bbox="1162 595 1946 815">Without strong controls over ongoing appropriateness of access, there is a risk that people who change role within the organisation may accumulate excessive privileges or that accounts held by former employees may remain active. Redundant access for leavers constitutes a risk for inappropriate access by other active employees or for external intruders.</p> <p data-bbox="1162 863 1946 920">Management should implement the following activities to reduce the associated risk:</p> <ul data-bbox="1162 933 1946 1214" style="list-style-type: none"><li data-bbox="1162 933 1946 991">- A process to grant new accesses to employees and to disable dormant accounts;<li data-bbox="1162 1003 1946 1125">- A periodic check of movers and leavers should be performed using HR or payroll records to ensure that any required changes to IT access rights have been notified by line managers and actioned;<li data-bbox="1162 1137 1946 1214">- Introduction of a formal review of user accounts and access rights at least annually to detect accounts with excessive privileges. <p data-bbox="1162 1246 1946 1305">Wiltshire Council response <i>Wiltshire Pension Fund accepts the recommendations.</i></p>

Other significant findings (continued)

Internal control and risk management

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment. Our scope included a limited review on key IT Controls for Altair and its underlying database. Set out below are our findings:

Observation	Deloitte recommendation
<p>Disaster Recovery Plan Testing</p> <p>Although IT disaster recovery arrangements have been put in place, formal set of policies and procedures as part of the recovery plan is not formally documented and tested to assist employees in the event of disaster.</p>	<p>Disaster recovery forms a big part of a company's business continuity plan. Thus we recommend that it is formally documented, approved and tested on a regular basis to ensure it works and meet organizations defined recovery point objective (RPO) and recovery time objective (RTO) requirements. Testing procedures should involve integration of DRP testing results into planned maintenance and staff training programs.</p> <p>Wiltshire Council response <i>Wiltshire Pension Fund accepts the recommendations.</i></p>

Other significant findings (continued)

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

No issues have been identified.

Significant matters discussed with management:

There have been no significant matters arising from the audit to date.

Other matters relevant to financial reporting:

The draft financial statements were published on 31 May 2019 in line with the deadline but were not fully complete. For example, the draft financial statements did not include note 6 – Grant Income, in addition to the property revaluation figures not being finalised impacting on note 15 and note 18.

In addition to this, the front end Narrative Reports were only received on 11 July 2019.

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. We do not have any significant findings.

We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

See 'conclusions from our testing' on page 3.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph. There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). Our conclusion on the Council's arrangements is unmodified.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report and Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation 	<p>We are yet to complete our review of the Narrative Report as this was not received until 11 July 2019. We note that from an initial review no significant issues were identified. This will be reviewed for compliance with the CIPFA code and for consistency with the annual accounts and our knowledge acquired during the course of this audit.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. A number of minor changes have been made to the Annual Governance Statement following our review.</p>

UK exit from the EU

Impact on our audit

There is a need to consider implications for the Council and for accounting and reporting matters to address in the annual report. As part of our audit we have assessed the potential impact of Brexit and have not identified any significant issues. We are yet to receive managements assessment of the impact of Brexit on the financial statements so are yet to conclude on this.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Ian Howse
for and on behalf of Deloitte LLP
Cardiff
23 July 2019

Appendices



Audit adjustments

Unadjusted misstatements/disclosure deficiencies

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

		Debit/ (credit) CIES £k	Debit/ (credit) in net assets £k	Debit/ (credit) prior year reserves £k	Memo: Debit/ (credit) usable reserves £k	If applicable, control deficiency identified
Misstatements identified in current year						
Understatement of Pension Liabilities - McCloud	(1)	£2,700k	(£2,700k)			
Projected Error – Overstatement of Creditors	(2)	(£1,468k)	£1,468k			
Total		£1,232k	(£1,232k)			

(1) The Council's actuary has assessed the impact of the McCloud judgement to be an increase of pension liabilities by 0.16%/£2.7m. Given that the impact is not material no adjustment has been made to the pension liability in respect of this, and instead this has been recorded as a contingent liability.

(2) We have estimated that the Council's creditors balance could be overstated by £1,468k based on extrapolating across our testing an error which was identified of £251k (which is below our clearly trivial threshold).

We have not identified any further uncorrected misstatements or uncorrected disclosure deficiencies up to the date of this report. We note that as our work is ongoing, this is based on confirmation from management that further identified misstatements/deficiencies would be corrected, but we are yet to finalise our work to substantiate this. Should any misstatements/deficiencies that are agreed to be amended turn out to remain uncorrected, this will be communicated separately to the Audit Committee.

We identified a number of rounding differences between the main statements and notes to the accounts which are not considered material and management have not adjusted for these.

We're discussing a possible adjustment with management in relation to the Officers' Remuneration bands per note 10.

We identified that archetype 13 of HRA assets is understated by £1m per note 15 as a result of an error in copying the valuation figures from the Valuer's report. Management have agreed to correct this and this will be updated to a corrected misstatement once we've received updated accounts showing the correction.

We identified that note 15 includes a disposal of an asset with a NBV of £1,552k which was actually disposed of prior to 2018/19. We're in discussion with management as to whether this is indicative of a control deficiency. As this is not a material error or change in accounting policy we are satisfied that the opening balances should not change.

Audit adjustments

Corrected misstatements/disclosure deficiencies

The following corrected misstatements have been identified up to the date of this report.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Memo: Debit/ (credit) usable reserves £m	If applicable, control deficiency identified
Misclassification between 'other liabilities' and 'planning deposits'	(1)					N/a –this related to a misclassification between categories of long term liabilities on the balance sheet.
Note 37 totals	(2)					N/a – this related to an error identified in the subtotals used in note 37.
Note 15 misclassification	(3)					N/a – this related to a misclassification between disposal categories

(1) Following receipt of the draft accounts, we were informed by management that the balance sheet included a misclassification between 'other long term liabilities' and 'planning deposits' of £11,081k.

(2) We identified that the "Net written out amount of the cost of non-current assets consumed in the year" subtotal per note 37 Capital Adjustment Account was being totalled incorrectly. This did not have an impact on the overall total of the note which was correct.

(3) We were informed by management that the disposals figure of £29,612k included in the accounts was overstated by £1,709k with an equal but opposite movement to the other derecognition figure of £13,294k. This is due to the misclassification of assets disposed between the two categories.

In addition to the above, we also identified a number of minor disclosure deficiencies/errors which have since been corrected by management.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified completeness and cut off of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance and have not identified any further risks relating to fraud.

Concerns:

No concerns identified.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The council audit fee for 2018/19, in line with the fee range provided by PSAA, is £128,913.</p> <p>The pension audit fee for 2018/19 is £18,669.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



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