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Report to those charged with governance (ISA 260) 2011/12

Wiltshire Council

7 September 2012

Contents

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Introduction

This report summarises:

- **the key issues identified during our audit of Wiltshire Council's ('the Council's) financial statements for the year ended 31 March 2012; and**
- **our assessment of the Council's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2011/12*, presented to you on 20 June 2012, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2011/12* issued in June.

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we issued our *Interim Audit Report 2011/12.*

Our final accounts visit on site took place between 3 July and 27 July. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2011/12 VFM conclusion. This included:

- an initial VFM risk assessment; and
- our work to address the specific risk areas identified.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year final audit visit recommendations and this is detailed in Appendix 2.

The recommendations made in the prior year at the interim stage were addressed in the interim report in June 2012 as were the IT recommendations made in the ISA 260 report, issued in September 2011 and therefore are not revisited again now.

The recommendations which arose from this year's interim audit phase will be followed up at the interim report stage in 2013.

Acknowledgements

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

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on 7 September 2012. This means that we consider that the accounts give a true and fair view of the financial performance and position of the Council and have been prepared in accordance with accounting requirements. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified a total of five audit adjustments with a total value of £24.6 million. These amendments relate to technical accounting adjustments and do not affect the "cash" surplus position of the Council. The impact of these adjustments is to: ▪ decrease the deficit on provision of services for the year by £5.5 million; and ▪ increase the net worth of the Council as at 31 March 2012 by £2 million. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Council.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.
Accounts production and audit process	The Council has continued to evidence a strong financial reporting process. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Council has implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is complete. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.
VFM conclusion	We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion on 7 September 2012.

Proposed opinion and audit differences

Our audit identified a total of five audit adjustments. These amendments relate to technical accounting adjustments and do not affect the "cash" surplus position of the Council.

The impact of these adjustments is to:

- **decrease the deficit on the provision of services for the year by £5.5 million; and**
- **increase the net worth of the Council as at 31 March 2012 by £2 million.**

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on 7 September 2012.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you, of which there are none as the Council has processed all differences identified.

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.

Our audit identified a total of five significant audit differences, which we set out in Appendix 3, which have now been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Council's movements on the General Fund for the year and balance sheet as at 31 March 2012.

There is no net impact on the General Fund as a result of audit adjustments.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 ('the Code')*. The Council has addressed them where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Council has agreed to amend.

Movements on the General Fund 2011/12

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	(89,296)	(83,805)	*1*
Adjustments between accounting basis & funding basis under Regulations	82,519	77,028	*1*
Transfers from earmarked Reserves	6,996	6,996	
Increase in General Fund	**219**	**219**	

Balance Sheet as at 31 March 2012

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	959,977	961,941	*2*
Other long term assets	43,215	43,215	
Current assets	159,520	134,951	*3 & 4*
Current liabilities	(153,033)	(128,464)	*3 & 4*
Long term liabilities	(806,233)	(806,233)	
Net worth	**203,446**	**205,410**	
General Fund	(14,145)	(14,145)	
Other reserves	(189,301)	(191,265)	*2*
Total reserves	**(203,446)**	**(205,410)**	

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.

In our *Financial Statements Audit Plan 2011/12*, presented to you in March, we identified the key risks affecting the Council's 2011/12 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
Public sector cuts	■ The Council continues to face a challenging financial position due to the reductions in local government funding from central government. The steps the Council is taking to address these pressures will have financial statements implications, for example on areas such as provisions, and have a significant impact on its arrangements to secure value for money. ■ As a result of the cuts the Council has restructured its management team and made two corporate management team redundancies, which require disclosure in the senior officers' emoluments and will be subject to an increased level of scrutiny.	■ We reviewed the Council's arrangements in place for securing economy, efficiency and effectiveness in your use of resources during our value for money audit. See page 13 for further commentary on the VFM conclusion work. ■ We reviewed the senior officers' remuneration and exit packages closely to ensure all payments are appropriately disclosed. No significant issues were identified.
Accounting for Heritage Assets	■ With the Code adopting the new Financial Reporting Standard no. 30 on Heritage Assets in 2011/12, the Council had to review its property and inventory to consider if it has any Heritage Assets. ■ The 2011/12 Code includes a number of accounting changes, including a new requirement to carry heritage assets at valuation. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. This includes historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.	■ We reviewed the Council's approach, considering how it has identified and valued its Heritage Assets and confirming that the accounting treatment is in line with the Code. ■ No material heritage assets were identified which required valuation, which is in line with our expectations. ■ The Council has included appropriate disclosures in the accounts on the impact of the new accounting standard for Heritage Assets.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
Revenues & Benefits System Changes	■ The consolidation of the legacy systems from the four demised district councils into a single Revenues & Benefits system requires the management of a complex system implementation, and the transfer of a significant amount of data into the new system.	■ Our work has concluded that the data migration project has been managed and performed in a satisfactory manner. ■ We tested the accuracy of the data mapping and are satisfied that this was carried out correctly. ■ Further details are set out on page 8.
Estate Property Changes	■ There are a significant number of changes underway to the Council's property estate, including the refurbishment of County Hall, which has progressed significantly over the year, together with planned property disposals. This increased level of activity in additions and disposals increases the risk of error within these categories. Where properties are held for sale but not yet sold at the year end these may need to be classified as 'held for sale'. These assets may also require revaluation. ■ This is the second year that component accounting will apply to the Council and this requires the Council to maintain additional fixed asset records, which increases the risk of error.	■ We reviewed the controls surrounding the additions and disposals of Property, Plant and Equipment. No issues were identified. ■ We tested and verified the significant additions and disposals which have occurred in the period, together with any impacts on impairment and disclosures in the financial statements. ■ Assets relating to schools which became academies in the year have been derecognised from the accounts as they are no longer the responsibility of the Council. ■ Many of the asset disposals planned in the year were delayed and so the level of assets held for sale at the year end was lower than expected. ■ We reviewed the impact of component accounting, to ensure the Council has introduced sufficient systems to record the extra data required. No significant issues were identified.

Critical accounting matters (continued)

Issues identified during our audit of SAP system and the general IT control environment were reported in our *Interim Audit Report 2011/12*, presented to you on 20 June 2012

Key audit risk	Issue	Findings
SAP operating effectiveness	■ With the implementation of SAP in 2009/10 there were some initial control issues and as a result we identified several concerns during that year's audit. We acknowledge that a lot of management time and effort was directed at resolving these issues and progress was seen during the 2010/11 audit. However, at the end of the 2010/11 audit we still had some outstanding recommendations on how the control environment within SAP could be further strengthened. As SAP is fundamental to the Council's financial management and reporting arrangements, the strength of controls over this system is paramount to the reliability and accuracy of the data within the financial systems.	■ We followed up on progress made on recommendations made during the 2010/11 audit and we reviewed both the design and operating effectiveness of the key automated controls within SAP. ■ Further recommendations were made in our *Interim Audit Report 2011/12* presented in June and we are aware that management are working on implementing these.
Internal audit	■ In November 2011, South West Audit Partnership (SWAP) assumed the management of the Council's Internal Audit service. The Council's Internal Audit staff transferred under TUPE to SWAP with effect from 1 November. ■ The Internal Audit team did not fully adopt SWAP's systems and approaches during 2011/12, but there were changes in reporting lines and a new Head of Internal Audit. ■ Although the audit plan being completed for the year 2011/12 remained as agreed at the start of the year, the Internal Audit team went through a significant amount of change.	■ We reviewed the effectiveness of the Internal Audit service both for the period from 1 April to transfer to SWAP and then for the period from 1 November to 31 March to ensure that CIPFA internal audit standards were met. ■ Our findings were reported in our *Interim Audit Report 2011/12* and we are now working closely with SWAP as we plan for next year's audit. We hold quarterly meetings and are agreeing a new joint working protocol for 2012/13. ■ The two recommendations made in our *Interim Audit Report 2011/12* will be followed up during next year's audit.

Revenues & Benefits system changes

Our work shows that the revenues and benefits data migration project was managed well overall.

We tested the accuracy of the data mapping and are satisfied that this was carried out correctly.

Background

Following the reorganisation which resulted in a single unitary authority for Wiltshire, the Council initially maintained the four different Revenues & Benefits systems which had been run in each of the district councils. Wiltshire Council instigated a project to combine the four systems into one, with the new system going live in November 2011.

The contract for the replacement application was awarded to Northgate Information Services. The project also included the replacement of the existing three Electronic Document Management Systems with a single integrated application.

Overall assessment

Overall, we consider that the data migration project has been managed and performed in a satisfactory manner. We tested the accuracy of the data mapping and are satisfied that this was carried out correctly.

Areas of good practice	
Project structure	The initial Project Initiation Document covered the key areas and ensured that they were identified and defined at an early stage.
Documentation	Clear, structured and adequate documentation is a key element in the effective management of a project. In general the documentation provided to us met these criteria. Scenario testing and sample checking was documented in a clear and structured manner, making it easier to control and manage.
Reporting	Highlight reports were provided on a regular basis to the Project Boards, including updates on key risks and key issues. Financial information was also reported on a regular basis.

Revenues & Benefits system changes

Issues and learning points for development	
Records migrated with errors	There are still a number of records on the Northgate application with flags, indicating a problem during the data migration. The problems with these records were known about prior to the live migration and it was decided by the Project Board that the option to accept the problems and flag the records for follow up post go-live was the best way forward. In some cases, the problems arise from differences in how the old and new systems operate rather than conversion errors e.g. the need to convert a single Council Tax account on one system into two on Northgate with the consequent problem of allocating payments to the correct account. These remaining flagged records relate to historical not current year claims/revenues and the risk of these having an impact on future revenues/claims is not considered to be significant. However, as the legacy applications are due to be decommissioned in April 2013, a decision will need to be made on what to do with any uncleared records, based on an informed assessment of the risk of non-correction. We understand that data will be downloaded from the legacy systems prior to decommissioning, and the practicality of using this information for resolving the differences post April 2013 will need to be part of this decision. At 14 August 2012 the figures for amendments still to be processed were: ■ Council Tax 0 live 768 closed account ■ NDR 947 live 2,244 closed ■ Housing Benefits 4,492 live (see below) 2,370 closed The figures for Housing Benefits show the total number of claims which showed a difference on the claim calculation for any period, but all corrections relating to current claims have been completed on live records, with remaining discrepancies relating to historic periods. In many cases these relate to a few days of claims only e.g. due to differences in how the different systems treated the weekly tax credit income for the first week of April. In addition there are 1,559 NDR open records flagged as" re org". This indicator is purely there to flag to the senior rating officers that the property has been subject to a split or merger previously which could not be converted. The flag will remain on these permanently. These flags ([plus another 2,307on closed accounts) are to ensure that a senior, experienced member of staff deals with these accounts.

Revenues & Benefits system changes

Issues and learning points for development (continued)	
Involvement of Internal Audit	Our initial discussions with internal audit in August 2011 indicated that internal audit planned to do a large proportion of the audit work on data migration. The external audit would then consist primarily of a review of internal audit work and a level of independent testing. Internal audit has actually had a more limited role in project assurance than originally envisaged, despite discussions indicating that the agreed work would be started in mid September. The timing of the transfer of internal audit to the external provider, South West Audit Partnership, was unfortunately at the start of November, shortly before the go-live on 21 November. This therefore led to a hiatus in the internal audit involvement in the project and the level of assurance that they could provide to management during the project.
Understanding of existing systems and underestimation of conversion difficulties	In the response to the ITT, Northgate indicated that they had performed migrations from the Council's existing systems. However, it was noted in the "Cut 4 Options Paper" that "other sites merging to Northgate undertook considerable manual conversion of data which was not made apparent at the beginning of the project". It is not uncommon for an application to be used in different ways at different entities, which makes a "one size fits all approach " impracticable. In addition, whilst users know how they use their applications, this knowledge does not normally extend to the understanding of the underlying details of how data is being held or differences in usage of non-mandatory fields. This was noted at one site with different teams using a field in different ways. For future projects, it is suggested that those evaluating the response to the ITT should liaise with project teams such as that on the Revenue and Benefits Project to identify the types of issues involved, especially in migration, so that a robust of validation of claims by the supplier can be made, especially at reference sites.

Accounts production and audit process

The Council has continued to evidence a strong financial reporting process.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Council has implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

The controls over the financial reporting system are generally sound.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Council has continued to evidence a strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a set of draft accounts on 26 June 2012. The explanatory foreword was provided on 20 July 2012.
Quality of supporting working papers	Our *External Audit working paper requirements* document, which we issued on 30 March 2012 and discussed with Finance, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time. In some cases, however, we experienced some slight delays, where staff were not available during the audit. This did not however impact on the overall completion of the audit.

Prior year recommendations

In our *Interim Audit Report 2011/12* we commented on the Council's progress in addressing the recommendations in our *ISA 260 Report 2010/11.*

The Council has now implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Appendix 2 provides further details.

Controls over key financial systems

As part of our final audit visit, we have reviewed and assessed the controls around the financial reporting process. These are the controls which are mainly operated during the closedown of the financial ledger at year end and during the production of the accounts.

Key findings

The controls over the majority of the key financial system are generally sound and the Council has continued to evidence a strong financial reporting process.

System	Assessment
Financial reporting	3

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

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will close our audit and prepare our *Annual Audit Letter*.

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 for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Finance, a draft of which is reproduced in Appendix 5. 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 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 Council's 2011/12 financial statements.

VFM conclusion

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

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

Background

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

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

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

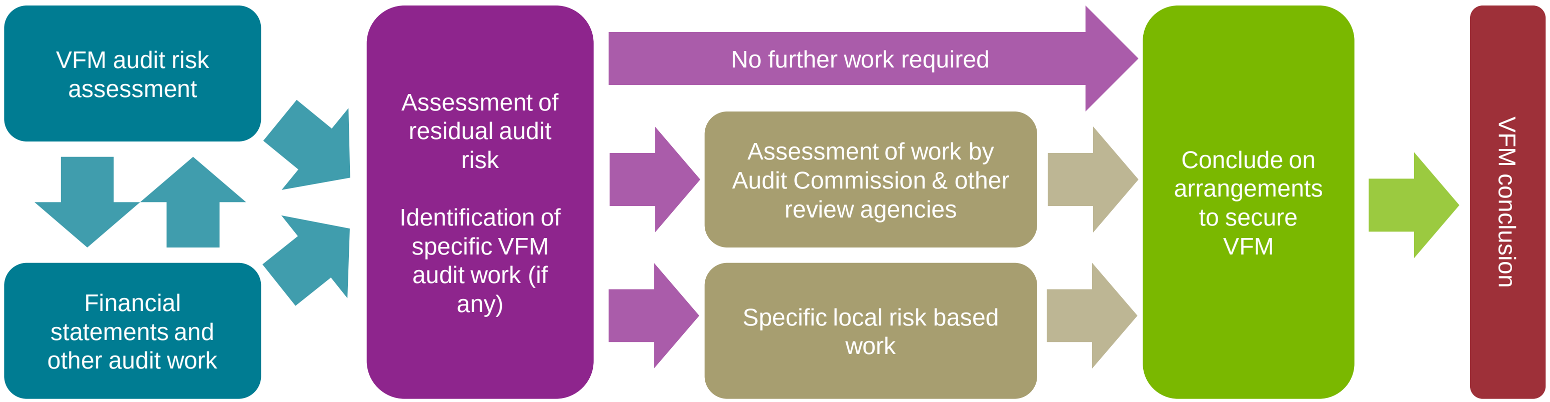
The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

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

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

The following page includes further details on our specific risk-based work.



Specific VFM risks

We have now concluded our specific work in relation to the residual risks we identified following our initial risk assessment.

Our general audit work provides us with good assurance over the Council's general arrangements for securing economy, efficiency and effectiveness.

We identified the residual audit risks for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Council, the Audit Commission, other inspectorates and review agencies.

We concluded that we needed to carry out additional work for some of these risks and this work is now complete. The outcome of this work is set out below.

Key VFM risk	Preliminary assessment	Key findings of our additional work
Savings plan	We need to consider in more detail the process used by the Council to put together the savings plan and monitor progress against it.	Management have monitored the savings plan closely. The savings have been reported at regular intervals to the Cabinet with explanations of progress of achieving the separately identified savings. These savings are risk assessed between green, amber/green, amber/red and red. Green indicates that the savings have been delivered and removed from the base budgets while red risks indicate a high likelihood that the savings will not be delivered. The levels of detail provided in the reports indicate that management understand the costs of delivery and are achieving the savings required. This is further evidenced by the under spend on the general fund for 2011/12.
Level of benchmarking and cost information	We need to consider how the Council uses benchmarking to inform its decision making. We also need to review the level of information on unit, transaction or whole life costs used by the Council to inform decision making.	Management does use benchmarking where possible but it believes in many areas there is limited scope and benefits to completing benchmarking activities. Management have refined project gateway processes during the year to improve the decision making and documentation on projects before projects are approved. Management includes 'whole life costs' in their considerations.
Ofsted safeguarding report	We need to consider the Council's response to the Ofsted inspection report on safeguarding and looked after children.	Management reacted very quickly to the Ofsted Inspection report, creating an action plan which was agreed with the Inspectors. An improvement Board was set up to oversee, challenge and support the delivery of the improvement plan. Many of the actions have been completed or are in progress of being completed. We understand that management capacity has been increased and quality assurance processes have been strengthened.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Issue** Testing of journal authorisation identified that six journals out of our sample of 25 had been posted by individuals who did not have the appropriate authorisation to do so. We understand that this situation has arisen due to an upload report on SAP bypassing some controls which had been set up. We acknowledge that management are working on an IT fix to this problem and have put compensating manual controls in place. **Recommendation** Ensure that only appropriate individuals have the ability to post journals in SAP.	This system bug was discovered during 2011/2012 as part of the regular review of processes. Guidance was issued to all finance staff and posted documents are reviewed to ensure correct authorisation. Any journal not correctly authorised would be reversed. However none have been incorrectly posted in 2012/2013 as of 9/8/2012. Compensating processes are in place. No further action required.

Appendix 2: Follow up of prior year recommendations

The Council has implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Recommendations relating to the IT control environment were followed up and re-iterated where necessary in our interim report.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

We made a number of recommendations in 2010/11 relating to the IT control environment. Progress made by the Council to implement these recommendations was reviewed during our interim audit and outstanding recommendations were re-iterated in our *Interim Audit Report 2011/12* presented to you on 20 June 2012.

Appendix 3: Audit differences

This appendix sets out the significant audit differences, all of which have been adjusted.

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 the Council's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Wiltshire Council's financial statements for the year ended 31 March 2012, which have been adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	**Dr** Actuarial losses £5,491k **Cr** Net cost of services £5,671k **Cr** Financing and investment costs £180k				Additional employer contributions were paid by the Council in order to help fund the pension scheme deficit but were not notified to the actuary for inclusion in the IAS 19 calculations.
2		**Dr** Council dwellings £1,964k		**Cr** Revaluation reserve £1,964k	An error was identified in the Beacon valuation report for council dwellings provided by the external valuer.
3		**Cr** Short term debtors £17,683k	**Dr** Short term creditors £17,683k		A payment to schools relating to 2012/13 was made on 1 April 2012 but was processed through the ledger in 2011/12 as the ledger had not yet closed. The I&E impact was adjusted by management but incorrectly increased payments in advance instead of reducing creditors. As the payment was made after the year end, the whole transaction needs to be removed from the accounts.

Appendix 3: Audit differences (continued)

No.	Impact: Income and Expenditure Statement	Impact: Assets	Impact: Liabilities	Impact: Reserves	Basis of audit difference
4		**Cr** Short term debtors £6,886k	**Dr** Short term creditors £6,886k		A grant due to be received after year end was invoiced before year end, but was incorrectly recognised as a pre-year end debtor.
5		**Dr** Vehicles, plant and equipment disposals £6,354k **Cr** Vehicle, plant and equipment de-recognition £6,354k			This adjustment reflects the vehicle and equipment assets which should have been derecognised as part of the transfer to Academy schools but had been accounted for as a disposal.
	-	**Cr £22,605k**	**Dr £24,569k**	**Cr £1,964k**	**Total impact of adjustments**

Unadjusted audit differences

We are pleased to report that there are no unadjusted audit differences.

Presentational issues

We identified a number of minor presentational issues during our audit and these have been amended by management.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Council.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Wiltshire Council for the financial year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, 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 Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

KPMG LLP
100 Temple Street
Bristol
BS1 6AG

7 September 2012

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Wiltshire Council ("the Council") for the year ended 31 March 2012, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Council as at 31 March 2012 and of the Council's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2012 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   - give a true and fair view of the financial position of the Council as at 31 March 2012 and of the Council's expenditure and income for the year then ended;
   - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2012 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
   - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.

Appendix 5: Draft management representation letter (continued)

Information provided

4. The Council has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Council for the purpose of the audit; and
   - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. The Council has disclosed to you all information in relation to:

   a) fraud or suspected fraud that it is aware of and that affects the Council and involves:

      - Management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Council has disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Council understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

11. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

Appendix 5: Draft management representation letter (continued)

The Council further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved;

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 7 September 2012.

Yours faithfully,

Chair of the Audit Committee

Director of Finance

Appendix 5: Draft management representation letter (continued)

Appendix A to the Management Representation Letter of Wiltshire Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the year;
- Balance Sheet as at the end of the year;
- Movement in Reserves Statement for the year;
- Cash Flow Statement for the year;
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund:

a) the Local Government Pension Scheme (in England and Wales)

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales must contain:

a) A fund account disclosing changes in net assets available for benefits.

b) A net assets statement showing the assets available for benefits at the year end.

c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Appendix 5: Draft management representation letter (continued)

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);

b) associates;

c) joint ventures in which the authority is a venture;

d) an entity that has an interest in the authority that gives it significant influence over the authority;

e) key management personnel, and close members of the family of key management personnel; and

f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and

b) an entity with which the relationship is solely that of an agency.

Appendix 5: Draft management representation letter (continued)

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

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