

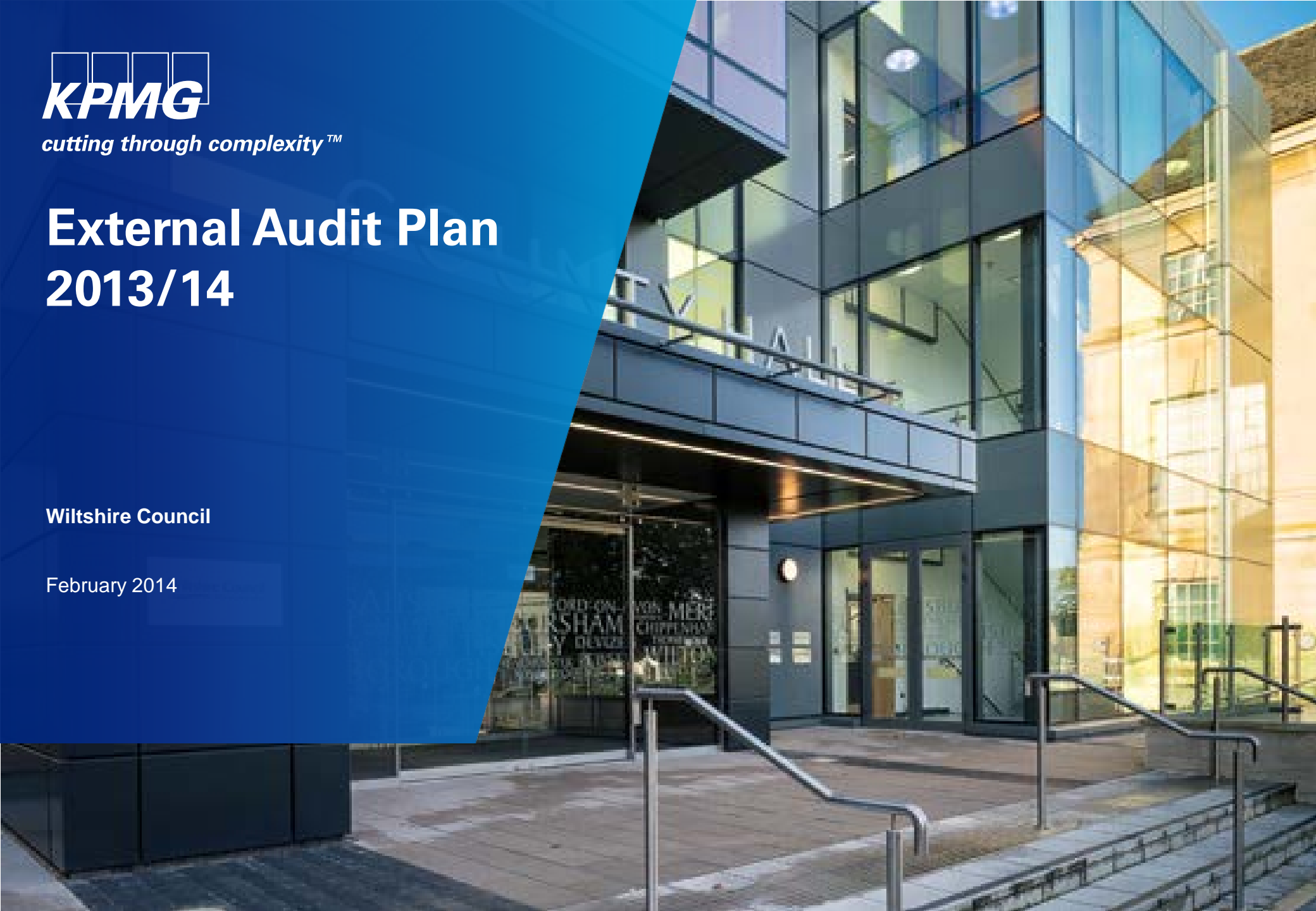


cutting through complexity™

External Audit Plan 2013/14

Wiltshire Council

February 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for Wiltshire Council and Wiltshire Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in June 2013. It describes how we will deliver our financial statements audit work for Wiltshire Council ('the Authority') and Wiltshire Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

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

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements of the Authority and the Pension Fund and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks for the Authority.
- Section 5 provides further detail on the audit risks for the pension fund.
- Section 6 explains our approach to VFM work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

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

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Associate Director: Finance (section 151 Officer), Revenues & Benefits, and Pensions.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks for the Authority	<p>We have completed our initial risk assessment for the Authority's financial statements audit and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Estates Strategy – The Authority is in the process of rationalising its estate, an exercise that will see further reductions in the number of sites occupied by the Authority. As a result of delays in this process there is a likelihood that a number of empty properties will be held by the Authority at the year end. These will need to be assessed in order to ensure that any impairments have been identified and that the correct accounting approach has been adopted; and ■ Triennial valuation – During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013. The accounting entries required to be included in the financial statements for 2013/14 under the relevant accounting standard ("IAS 19") will be based on the output of the triennial valuation rolled forward to 31 March 2014. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. <p>This is described in more detail on pages 10 to 12. We will assess the Authority's progress in addressing these risk areas as part of our interim work and conclude this work at year end.</p>
Key financial statements audit risks for the Pension Fund	<p>Our initial risk assessment for the Pension Fund's financial statements audit has not identified any significant risks this year.</p> <p>We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.</p>

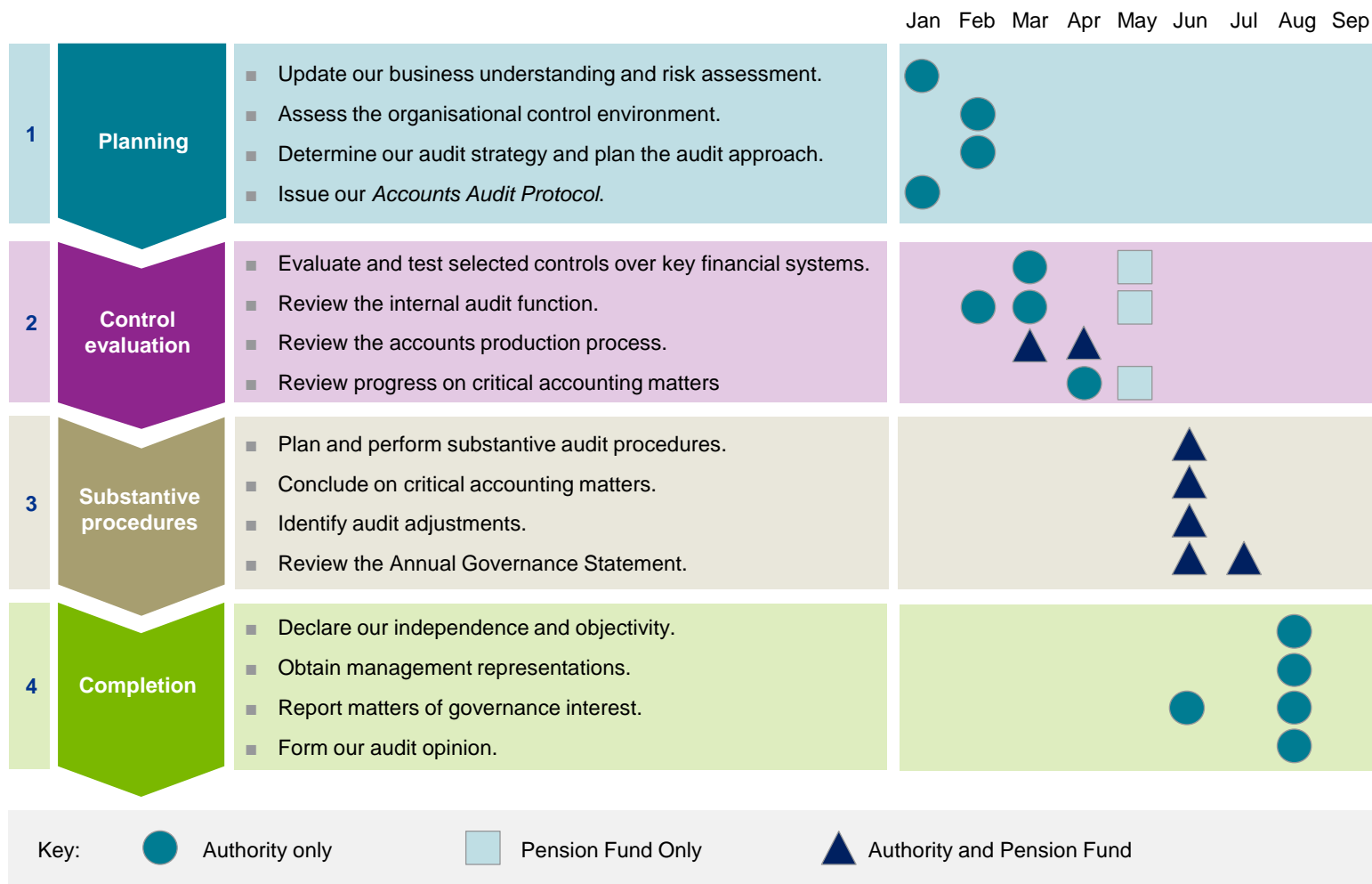
This table summarises the headline messages. The remainder of this report provides further details on each area.

<p>VFM audit approach and risk assessment</p>	<p>Our value for money audit approach is unchanged from last year. Our work is carried out in six stages, these are described in more detail on pages 14 to 17.</p> <p>We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Savings plans – The Authority’s savings programme for 2013/14 totals £27.7 million, with additional savings of £23 million required for 2014/15 in order to address continuing central government funding reductions. In addition, in year overspends of £5.7 million have necessitated additional in year savings to be delivered; and ■ Asset Valuations – during 2012/13 the Authority identified a significant downwards valuation upon the completion of the first phase of the renovation of the County Hall. This resulted in a £14.7 million exceptional expenditure item being recognised in the financial statements for the year. It is expected that a similar scenario could arise during 2013/14 as a result of the completion of the second phase of the renovation. <p>These are described in more detail on pages 18 to 19.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>Whilst each member of our audit team was involved in the audit during 2012/13, Darren Gilbert now replaces Chris Wilson as the Engagement Lead.</p> <p>Our main year end audit is currently planned to commence on 9 June 2014 with the audit of the Pension Fund commencing 6 May 2014. Upon conclusion of our work we will present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The overall planned fee for the 2013/14 audit is £246,601. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>. This comprises £222,156 for the Authority’s audit and £24,246 for Pension Fund.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (June to July).
- **Completion** (August).

We have summarised the four key stages of our financial statements audit process for you below.



During January and February 2014 we complete our planning work.

We assess the key risks affecting the financial statements of both the Authority and the Pension Fund and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We will issue our *Accounts audit protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the operations of both the Authority and the Pension Fund and identify any areas that will require particular attention during our audit of the relevant financial statements.

We identify the key risks affecting the Authority's financial statements, and those of the Pension Fund. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the responsibility of the Authority, and the Pension Fund, to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

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

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 'Audit materiality', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocols*. Separate documents will be issued for the Authority and the Pension Fund. These important documents set out our audit approach and timetable. They also summarise the working papers and other evidence we require during our interim and final accounts visits.

We met with the Associate Director: Finance (section 151 Officer), Revenues & Benefits, and Pensions and other key officers to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.

During February to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed during March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the key financial processes, within both the Authority and the Pension fund, where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2013/14.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised one recommendations in our *ISA 260 Report 2012/13* relating to the accounts production process. This related to the completeness of asset disposals when schools achieve academy status.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

Our audit approach – substantive procedures

During June 2014 we will be on site for our substantive work on the Authority's financial statements. We will conduct our work on the Pension Fund during May and June 2014.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for the Authority's audit to the Audit Committee in August 2014.

Our corresponding report on the Pension Fund will be presented to the Wiltshire Pension Fund Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for June 2014 for the Authority and May 2014 for the Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Associate Director: Finance (section 151 Officer), Revenues & Benefits, and Pensions in July 2014, prior to reporting to the Audit Committee on 12 August 2014.

Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee and the Wiltshire Pension Fund Committee. 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.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in August 2014.

Pension Fund Annual Report

We also issue our opinion on the consistency of the Pension Fund annual report with the Pension Fund's accounts. We will issue this opinion in line with the Pension Fund's intended timetable for publication of the annual report and the December deadline.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

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

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 21

Independence and objectivity confirmation

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

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

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

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of January 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.


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

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

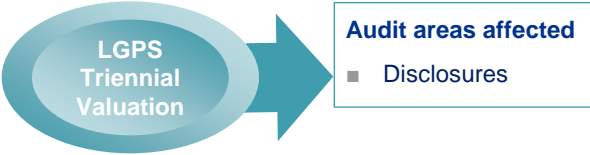
The table on the following pages sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

For the key risk areas identified we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p>Estates Strategy</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Fixed Assets ■ Impairments ■ Assets held for sale 	<p>Risk</p> <p>Over recent years the Authority has been undertaking a rationalisation of its estate. This has seen significant reductions in the number of properties occupied by the Authority and will continue to do so throughout 2013/14 and into 2014/15. Through discussions with officers we identified that the Authority has encountered delays in relation to the vacation of sale of a number of properties (for example the Shurnhold site). As a result of this, there is an increased likelihood that the Authority will be holding vacant properties as at the year end, some of which will be classified as “held for sale”.</p> <p>Where properties have been vacated, there is a risk that the value previously recorded on the Fixed Asset Register is no longer appropriate and that an impairment may have arisen. This risk increases as the duration of vacancy lengthens.</p> <p>Our audit work</p> <p>We will review the extent to which the Authority is holding vacated properties as at 31 March 2014 and the way in which the value of such properties has been validated. Where impairments have been identified we will undertake work to confirm the value of the impairment and the accounting entries arising as a result.</p> <p>We will also undertake an assessment of the value of assets recognised as “held for sale” in order to confirm that the requirements of the relevant accounting standards have been met,</p>

For the key risk area we have outlined the impact on our pension audit plan.

Key audit risks	Impact on audit
	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for Wiltshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013, in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is an audit risk that the data provided to the actuary for this exercise is inaccurate, which could lead to errors in the actuarial figures in the accounts. Most of the data is provided to the actuary by Authority, who both participates in and administers the Pension Fund.</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the Audit Commission for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund is able to recharge these costs to the relevant admitted bodies.</p>

Although not considered a significant risk, we also draw the Authority's attention to the changes in the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. These include:

- Post-employment benefits – revisions have been made to reflect changes to the classification, recognition, measurement and disclosure requirements introduced by the June 2011 amendments to IAS 19.
- Accounting for business rates retention – a new section has been included to provide guidance on the accounting requirements for the localisation of business rates in England.

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2013/14.

As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Our initial assessment has not identified any risks that are specific to the Pension Fund.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

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

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of inspectorates and other review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

We have identified a number of specific VFM risks.

We will carry out additional risk-based work in the following areas:

- Savings Plans ; and
- Asset Valuations.


In line with the risk-based approach set out on the previous page, we have


- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>As at the end of December 2013, the Authority was forecasting an overspend against its 2013/14 budget by approximately £0.5 million. This is after the identification of £3.6 million of additional savings and a £2.8m capitalisation direction in relation to voluntary redundancy costs.</p> <p>The original 2013/14 budget included a savings programme totalling £27.7 million and a drawdown of £1.7 million from the General Fund Reserve. In addition, the Authority has estimated that a further £23 million of savings will need to be delivered in 2014/15, to address the ongoing reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Specific risk based work required: Yes</p> <p>We will assess the controls the Authority has implemented to ensure a sound financial standing, specifically that its Medium Term Financial Plan has taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p>

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>During 2012/13 the Council completed the construction of its new office building, representing the first phase of the renovation of the County Hall. As the result of the valuation report produced by GVA Grimley, a downward revaluation of £14.7 million was required.</p> <p>The Authority's officers have informed us that there is the potential that a similar issue is likely to arise in relation to the completion of the second phase of the County Hall renovation during 2013/14. This will result in the second consecutive year of significant investments being made in relation to assets which were subsequently valued below cost.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Specific risk based work required: Yes</p> <p>We will assess the extent to which the Authority identified, and made members aware of, the likelihood of such valuation matters. We will also consider how the Authority has assured itself that the overall renovation project represents value for money through the benefits obtained as a result of its completion.</p>

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

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Darren Gilbert
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee, the Leader of the Council and the Corporate Directors.”



Tara Westcott
Senior Manager

“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with Darren to ensure we add value.

I will liaise with the Associate Director: Finance (section 151 Officer), Revenues & Benefits, and Pensions and other Executive Directors.”



Adam Bunting
Assistant Manager

“I am responsible for the on-site management, review and delivery of the audit of the Authority.

I will liaise with the Chief Accountant and Head of Internal Audit.”



Duncan Laird
Manager

“I am responsible for the management, review and delivery of the audit of the Pension Fund.

I will liaise with the Head of Pensions and Strategic Pension Manager.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation		
Interim Report	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Identifies improvements required prior to the issue of the draft financial statements and the year-end audit. 	June 2014
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report) Separate reports will be issued for the Authority and the Pension Fund.	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	August 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	August 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Pension Fund Annual Report	<ul style="list-style-type: none"> ■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts, 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	December 2014

We will be in continuous dialogue with you throughout the audit.

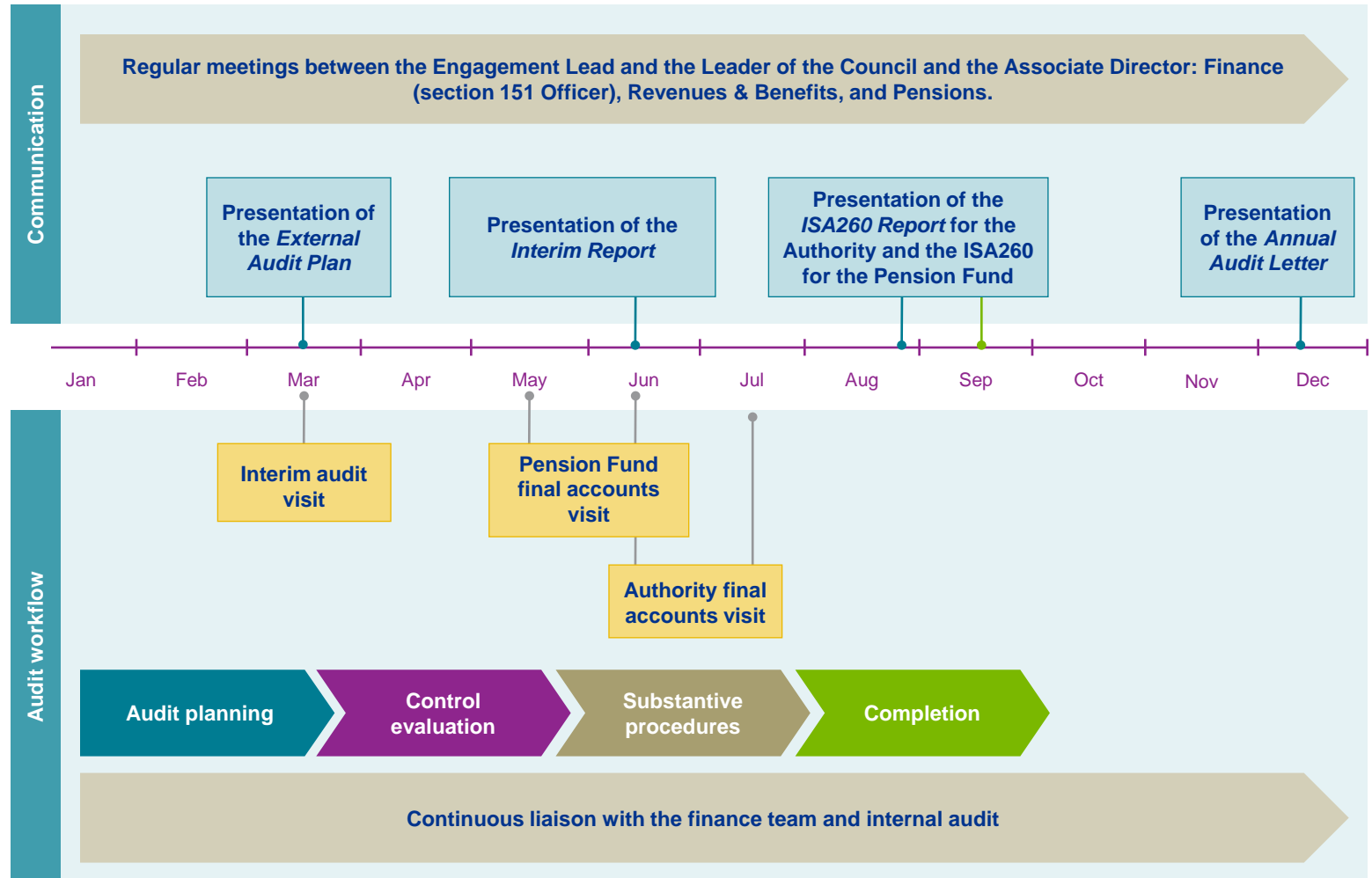
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- June – Interim Report;
- September – ISA 260 Report;
- December– Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during May and June for the Pension Fund and June and July for the Authority.



- Key:
- Audit Committee meetings.
 - Wiltshire Pension Fund Committee meetings.

The main fee for 2013/14 audit of the Authority is £222,156. The fee for our audit of the Pension Fund is £24,246. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in June 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Main audit fee	£222,156	£222,156
Pension Fund audit fee	£24,246	£24,246

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. The fee for 2013/14 is £222,156. This is the same as the 2012/13 fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take keep the audit fee low. Future audit fees can be kept to a minimum if the Authority maintains an efficient and well-controlled financial closedown and accounts production process which complies with good practice and continues to appropriately address new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Associate Director: Finance (section 151 Officer), Revenues & Benefits, and Pensions.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

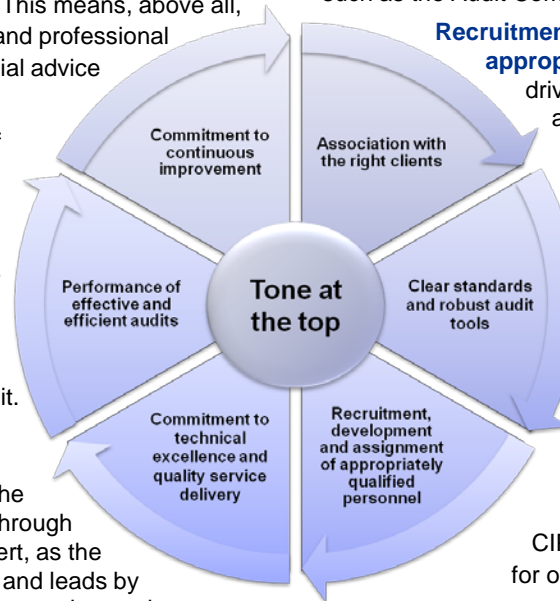
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Darren Gilbert, as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAUDIT application has significantly enhanced

existing audit functionality. eAUDIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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