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Report to those charged with governance (ISA 260) 2013/14

Wiltshire Council

July 2014



The contacts at KPMG in connection with this report are:

Darren Gilbert

Director

KPMG LLP (UK)

Tel: 0292 046 8205
darren.gilbert@kpmg.co.uk

Tara Westcott

Senior Manager

KPMG LLP (UK)

Tel: 0117 905 4358
tara.westcott@kpmg.co.uk

Adam Bunting

Assistant Manager

KPMG LLP (UK)

Tel: 0117 905 4470
adam.bunting@kpmg.co.uk

Report sections

	Page
■ Introduction	2
■ Headlines	3
■ Financial statements	5
■ VFM conclusion	11

Appendices

1. Key issues and recommendation	15
2. Audit differences	16
3. Declaration of independence and objectivity	17

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.auditcommission.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 4448 330.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

Scope of this report

This report summarises the key findings arising from:

- our audit work at Wiltshire Council ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- our work to support our 2013/14 value for money (VFM) conclusion.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our *Interim Audit Report 2013/14* presented in June 2014.

This report focuses on the third stage of the process: substantive procedures. Our on site work took place during June 2014.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our *Interim Audit Report 2013/14*.

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

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report 2013/14*. We have now completed the work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- **Section 2** summarises the headline messages.
- **Section 3** sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- **Section 4** outlines our 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 recommendations and this is detailed in **Section 3**.

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 for the Authority and the Fund. Sections three and four of this report provide further details on each area.

<p>Proposed audit opinion</p>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report.</p>
<p>Audit adjustments</p>	<p>Our audit identified a total of two audit adjustments. The impact of these adjustments is to:</p> <ul style="list-style-type: none"> ■ Decrease the value of current assets by £1.3 million; and ■ Decrease the value of current liabilities by £1.3 million. <p>There is no impact upon either the net worth of the Authority or the General Fund Balance. We have included a full list of significant audit adjustments at Appendix 2. All of these were adjusted by the Authority.</p> <p>We identified a number of presentational adjustments required to ensure that the accounts are compliant with the <i>Code</i>. These have also been corrected by the Authority in the most recent version of the Authority's financial statements.</p> <p>Our audit of the Fund did not identify any material misstatements. We identified a small number of presentational changes in the accounts which have been amended by the Authority.</p> <p>We have raised one recommendation for the Authority to strengthen their controls around their rolling revaluation programme. The details of this are set out in Appendix 1.</p>
<p>Key financial statements audit risks</p>	<p>We review risks to the financial statements of the Authority and the Fund on an ongoing basis.</p> <p>Since we presented our <i>External Audit Plan 2013/14</i> in March 2014 we have identified one additional risk area in relation to the accounting required for the completed Housing PFI. Details of this are included in Section 3 of this report.</p> <p>We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed all issues appropriately.</p>
<p>Accounts production and audit process</p>	<p>Despite significantly advancing the accounts production timetable by over three weeks for both the Authority and Fund accounts, the Authority has maintained the strength of its financial reporting process and draft accounts were available for us to review on the 9 June 2014.</p> <p>The quality of working papers provided to us by Finance and the Pension team were of a high standard and met the standards specified in our <i>Accounts Audit Protocol</i>. However, we did encounter some delays during the financial statements audit as a result of key staff working across multiple sites. We have discussed this with the Associate Director of Finance and identified improvements for next year.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2012/13</i> relating to the financial statements.</p>

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

<p>Completion</p>	<p>At the date of this report our audits of the financial statements of both the Authority and the Fund are substantially complete. The areas that remain outstanding are:</p> <ul style="list-style-type: none"> • Revised copy of the Annual Governance Statement; • Audit of the Whole of Government Accounts; and • A signed management representation letter which covers the financial statements of both the Authority and the Fund. <p>Before we can issue our opinion the Authority needs to have seen through their inspection period for local elector to inspect the accounts.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.</p>
<p>VFM conclusion and risk areas</p>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion.</p>

Our audit of the Authority's financial statements identified a total of two audit adjustments.

The impact of these adjustments is to:

- Decrease the value of current assets by £1.3 million; and
- Decrease the value of current liabilities by £1.3 million.

There is no impact upon either the net worth of the Authority, or the General Fund Balance.

We have identified no issues in the course of the audit of the Fund that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified a total of two significant audit differences, which we set out in **Appendix 2**. These have been corrected by the Authority and are included in the most recent version of the Authority's financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and Balance Sheet as at 31 March 2014.

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

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 2013/14* ('the Code'). These have also been corrected by the Authority in the most recent version of the Authority's financial statements.

Pension fund audit

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

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code*. These have been corrected by the Authority.

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit	Net impact variance
Deficit on the provision of services	50,943	50,943	-
Adjustments between accounting basis & funding basis under Regulations	(56,460)	(56,460)	-
Transfers to/from earmarked reserves	6,294	6,294	-
Decrease in General Fund	777	777	-

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit	Net impact variance
Property, plant and equipment	928,307	928,307	-
Other long term assets	60,363	60,363	-
Current assets	151,174	149,866	(1,308)
Current liabilities	(116,930)	(115,622)	1,308
Long term liabilities	(946,638)	(946,638)	-
Net worth	76,276	76,276	-
General Fund	(11,865)	(11,865)	-
Other usable reserves	(95,972)	(95,972)	-
Unusable reserves	31,561	31,561	-
Total reserves	(76,276)	(76,276)	-

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

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements.

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; 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 to Officers on the content around the Governance Issues disclosed within the document. We have requested that some additional information is included in order to help the reader understand the background of the issues.

Pension Fund Annual Report

We have reviewed the Pension Fund Annual Report & Accounts and confirm that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

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


We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.



During the course of our audit we identified one additional risk as a result of the completion of the Authority's Housing PFI Scheme. We have provided further details of this risk on the following page.

The table below sets out our detailed findings for each of the risks that are specific to the Authority. Each of these relates to the financial statements of the Authority, we did not identify any specific risks for Wiltshire Pension Fund.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations. In response to this risk, we performed controls testing and substantive audit procedures which included testing of journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We did not identify any issues from our work.

Key audit risk	Issue	Findings
	<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 in 2014/15 and beyond. 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>We reviewed the progress the Authority has made in relation to its estates strategy and undertook detailed testing in relation to both disposals and assets classified as held for sale. We have also held discussions with Officers on the status of the hubs and campuses to ensure that assets are being recorded in the correct asset category. From our testing we did not identify any issues in relation to the accounting entries made during the year.</p> <p>There are still a large number of properties to be disposed of under the Authority's estates strategy and we will continue to monitor the progress made in relation to this as part of our work for 2014/15.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed the issues appropriately.

Key audit risk	Issue	Findings
	<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 the Authority, which both participates in and administers the Pension Fund.</p>	<p>We have undertaken detailed testing to ensure that the Authority has correctly accounted for the results of the triennial valuation. Our work identified that the past service costs of £2.297 million had been included within finance & investment income & expenditure. These costs should have been allocated to non-distributed costs within net cost of services. This is purely a re-allocation within the Income & Expenditure Account and does not affect the General Fund balance. This adjustment forms part of our audit adjustments set out in Appendix 2.</p> <p>We have also confirmed that appropriate processes and controls have been implemented to ensure that data provided for the purposes of the valuation is accurate and complete. Our testing has identified no issues in relation to the operation effectiveness of these controls.</p> <p>In order to provide the actuarial valuation, Mercers made a series of assumptions in relation to factors such as discount rates, salary inflation and mortality figures. We have benchmarked these assumptions against our expectations and found no significant issues.</p>
	<p>During the year, the Authority completed the development of its new Housing PFI. This has resulted in the recognition of additional housing assets on the Authority's balance sheet as well as the related PFI liabilities.</p> <p>The accounting standards applicable to PFI schemes require a number of accounting entries which include an element of complexity. As a result, there is an increased risk in relation to the valuation of both the assets and liabilities.</p>	<p>The Authority completed its PFI scheme during the year, with a total of 242 units now in use. As a result the Authority recognised £16.952 million of assets within its balance sheet for the remaining units that were completed in year.</p> <p>We have confirmed that the Authority has accounted for the PFI scheme accurately and in line with the Code. Our detailed testing identified no issues.</p>

We have noted consistency in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>Despite significantly advancing the accounts production timetable by over three weeks, the Authority has maintained the strength of its financial reporting process.</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 6 June 2014. The draft Annual Governance Statement was subsequently provided on 19 June 2014.</p> <p>A number of presentational changes were made during the course of the audit to the draft accounts in order to ensure compliance with the Code.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued on 19 March 2014 and discussed with the Chief Accountant, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was of a high standard and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>

Element	Commentary
Response to audit queries	<p>Officers resolved audit queries in a reasonable time.</p> <p>Some delays arose, however, as a result of staff working across multiple sites. We have discussed this with the Associate Director of Finance and identified improvement for next year.</p>
Pension fund audit	<p>The audit of the Fund was completed alongside the main audit and was therefore brought forward by over three weeks in order to meet the financial statement timetable.</p> <p>The quality of the working papers provided was of high standard and were clear and easy to follow. Pension team officers were responsive to audit queries as they arose.</p> <p>There are no specific matters to bring to your attention relating to the audit.</p>

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund'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 prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Wiltshire Council and Wiltshire Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in **Appendix 3** 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 Associate Director of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific representations in relation to the valuation of fixed assets and the appropriateness of the Authority's testing for impairments in relation to such assets.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's

professional judgment, are significant to the oversight of the financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

We have just one matter to note. As part of the Local Government Finance Act 2012, the Government implemented a Business Rate Retention Scheme from April 2013, whereby the collection and distribution of Non Domestic Rates (NDR) is collected and distributed via the Collection Fund (this has previously been managed nationally).

We have noted that this year the Authority has reported a deficit on the NDR element of the Collection Fund of £7.9 million. This has led to an overall deficit on the Collection Fund of £4.9 million.

The Authority submitted its NNDR 1 form at the start of the financial year which stated the forecasted business rate income for the year. This is based on a complex formula and a number assumptions were made by the Authority. This was due to very little guidance being issued by the DCLG in this area. During the year, the Authority made payments to/from the Collection Fund based on their forecasted income. After the year end, the Authority is required to submit a NNDR 3 which shows the final outturn position. Due to the number of assumptions that were made at the start of the year this has left the NDR balance in deficit.

The Authority has an obligation to make up the deficit but this is borne by the Collection Fund and distributed to preceptors in future years through the declaration of a surplus or deficit on the fund.

The Authority has confirmed that a more robust process for 2014/15 has been implemented.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

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

We have concluded that the Authority 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 Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority 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 Authority to mitigate these risks and plan our work accordingly.

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

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following page include further details of our VFM risk assessment and our specific risk-based work.

Conclusion

We have concluded that the Authority 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	✓



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:


- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and

- completed specific local risk based work.

Key findings


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

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	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 has 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>Despite challenging savings targets for the year, the Authority's final outturn position was an under spend against budget of £0.397 million. In addition, the Authority utilised £0.777 million of General Fund balances instead of £1.7 million they were predicting.</p> <p>The Authority has continued to develop savings plans which require savings from all service areas, and has identified additional savings plans in order to compensate for budget pressures in relation to Adult Services, particularly Disability Services, and Childrens' Social Care. These cost pressures are in line with those experienced by other authorities throughout the country and, as a result, are not indicative of poor arrangements within Wiltshire.</p> <p>Performance against savings targets has been monitored throughout the year as part of the budget monitoring process in order to allow for such cost pressures to be effectively managed,</p>


We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>During 2012/13 the Authority completed the construction of its new office building, representing the first phase of the renovation of 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 informed us that there was the potential that a similar issue was likely to arise in relation to the completion of the second phase of the County Hall renovation during 2013/14. This would result in the second consecutive year of significant investments being made in relation to assets which were subsequently valued below cost.</p> <p>We considered 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> <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>An impairment was required in relation the second phase of the County Hall renovation, to the value of £4.333 million. This was significantly lower than that experienced in relation to phase 1. As a result, it was not necessary to disclose this separately on the face of the Comprehensive Income & Expenditure Statement as an exceptional item.</p> <p>As part of the Authority's four year rolling revaluation exercise, a number of class of assets were revalued during the year. This has led to a number significant impairment charges to the Income & Expenditure Account this year, particularly for some school assets. Even though these do then reverse out to the CAA so that there is no impact on the General Fund, such large movements within the year are notable. We have raised a recommendation within Appendix 1 in relation to this.</p> <p>As a result of the move to four main hubs (including the refurbished County Hall) the Authority has been able to dispose of 30 assets to date, generating capital receipts of £2.9 million. There are a further 74 assets to be disposed of (15 of which are in a position to be sold already) which are expected to generate receipts of £23.2 million.</p> <p>The disposal of assets has enabled the Authority to make annual maintenance and lease payment savings of £0.9 million to date. This is expected to rise to annual savings of £6.6 million once the disposal scheme has been completed.</p> <p>In addition to the financial benefits of the strategy, the renovation of the County Hall has enabled a modernisation of working methods, created a central contact point for the public as well as a more attractive public facility and made integrated working with other providers more assessable (e.g. MASH).</p>

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p><i>(continued)</i></p>	<p>We have gained audit evidence from testing a sample of balances surrounding fixed assets and in particular reviewed additions, disposals, assets held for sale and revaluations.</p> <p>We have also held a number of discussion with Officers and reviewed supporting documentation on the hubs and campuses and the potential saving realised during the year and going forward.</p>

Appendix 1: Key issues and recommendation

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendation.

We will formally follow up this recommendation next year.

Priority rating for recommendations		
<p>1 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.</p>	<p>2 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.</p>	<p>3 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.</p>

No.	Risk	Issue and recommendation	Management response / Responsible officer / Due date
1	2	<p>Rolling Revaluation Programme</p> <p>Like most authorities, the Authority operates a rolling revaluation programme. This aims to secure the revaluation of all land and buildings over a four year period, with different assets classes assessed in each individual year.</p> <p>Whilst the Code allows for revaluations to be undertaken in such a way, it states that “revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period”.</p> <p>Our audit work identified a class of assets (e.g. Schools) that had large impairments during the year as a result of the revaluation exercise. For example, Melksham Oak Secondary School had an asset value of £3.8m in 2010. During 2010 this school had a significant amount of construction work performed which increased its value to £18.6m. The School was formally valued in 2014 with a value of £5m, this has resulted in an impairment of £13.6m this year.</p> <p>Whilst it is not usual to have these impairments the Code expects Authorities to assess carrying values of assets at the end of each year even though they might not have been formally valued.</p> <p>Recommendation</p> <p>Consider how to gain assurance over the material accuracy of valuations for assets which have not been revalued during the year as part of the rolling valuation programme. An option may be to revalue a percentage of assets each year where construction has been performed rather than performing valuation on only specified asset classes each year.</p>	<p>Management response</p> <p>A procedure will be designed as part of the valuation process for 2014/15 closedown.</p> <p>Responsible Officer</p> <p>Matthew Tiller</p> <p>Due Date</p> <p>March 2015.</p>

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

These have all been corrected in the financial statements.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Wiltshire Council's financial statements for the year ended 31 March 2014. These have been corrected in the most recent version of the Authority's financial statements.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1			Cr Cash & Cash Equivalents (£1,308k)	Dr Bank Overdraft £1,308k		In prior years the Authority has disclosed its overdraft position separately to its cash and cash equivalents. Under the 2013/14 Code, it is a requirement to present a net cash position unless the overdraft is not part of the Authority's cash management approach. This adjustment is so that a net cash and cash equivalents position is disclosed on the balance sheet.
2	Cr Finance & Investment Income & Expenditure (£2,297k) Dr Non-Distributed Costs (Expenditure) £2,297k					The past service costs associated with the Authority's share of the Wiltshire Pension Fund had been included within finance & investment income & expenditure. These costs should have been allocated to non-distributed costs within net cost of services.
	-	-	Cr (£1,308k)	Dr £1,308	-	Total impact of adjustments

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

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 Engagement Lead 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.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority'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 and Wiltshire Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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