



# Report to those charged with governance (ISA 260) 2015/16

**Wiltshire Council**

—

July 2016

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

### This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money.

### 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 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### Financial statements

Our *External Audit Plan 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.



We previously reported on our planning work issued in our Audit Plan presented in April 2016.

This report focuses on the second and third stage of the process: control evaluation and substantive procedures. Our on site work for this took place during March and June 2016.

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 2015/16* explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 from our interim audit and year end audit work.
- Section 3 sets out our key findings from our Interim audit work on the control environment and IT systems
- Section 4 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 5 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 on Page 31.

### Acknowledgements

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

## Section two

# Headlines - Interim

This table summarises the headline messages for the Authority and the Fund. Sections three of this report provide further details on each area.

<b>Organisational and IT control environment</b>	<p>Your organisational control environment is effective overall.</p> <p>Progress in improving the overall IT control environment has continued to be made during this period with one of the prior year recommendations being fully implemented. The other issue around powerful SAP accounts has been revised due to risk acceptance by the Council, this is now been reported to focus on mitigating actions.</p> <p>The prior year priority two recommendation, in relation to disaster recovery planning and risk management, has been completed with a revised IT Disaster Recovery plan having been developed and delivered. This is a scenario based plan which considers the high level activities required to secure effective IT recovery in the even of a system failure Further details are provided in <a href="#">Appendix 2</a>.</p> <p>A small number of additional issues have been identified in relation to the segregation of duties within changes management, reinstating alerts within SAP and the controls over access to the Northgate system. Further details are provided in <a href="#">Appendix 1</a>.</p>
<b>Controls over key financial systems</b>	<p>In relation to those controls upon which we placed reliance as part of our audit, the key financial systems are generally sound, see page 7 for details.</p> <p>Despite this, Internal Audit identified improvement areas in relation to the control environment however these were not in the areas specifically relied upon during the audit.</p>
<b>Review of internal audit</b>	<p>During the year we have met regularly with SWAP in order to maintain a close working relationship and to build on our joint working protocol.</p> <p>In relation to our work on the Authority's financial controls, we were able to place reliance upon the work of Internal Audit in those areas where we have relied upon controls. Working papers produced by Internal Audit were of an appropriate standard, and were supported by the required evidence.</p>

This table summarises the headline messages for the Authority and the Fund. Sections four and five of this report provide further details on each area.

<p><b>Proposed audit opinion</b></p>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</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><b>Audit adjustments</b></p>	<p>Our audit has identified a total of two audit adjustments with a total gross value of £15.097 million for the 2015/16 financial statements. The impact of these adjustments is to:</p> <ul style="list-style-type: none"> <li>— Decrease the deficit on provision of services for the 2015/16 year by £0.722 million; and</li> <li>— Increase the net worth of the Authority as at 31 March 2015 by £4.069 million.</li> </ul> <p>We have included a full list of material audit adjustments at <b>Appendix 3</b>. All of these were adjusted by the Authority.</p> <p>There were also a number of small disclosure amendments raised throughout the audit all of which were amended, with the exception of changes to the Narrative statement, see <b>Appendix 1</b> for recommendations.</p> <p>There were no adjustments raised for the Pension Fund Accounts.</p>
<p><b>Significant financial statements audit risks</b></p>	<p>We review risks to the financial statements on an ongoing basis. We identified one significant financial statements level audit risk in our <i>External Audit Plan 2015/16</i>, issued in April 2016, in relation to the presentation of the Better Care Fund.</p> <p>We have worked with officers throughout the year to discuss this significant risk and our detail findings are reported in <b>Section 4</b> of this report. There are no matters of any significance arising as a result of our audit work in this significant risk area.</p>
<p><b>Accounts production and audit process</b></p>	<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.</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 Accounts Audit Protocol.</p> <p>The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15 relating to the financial statements.</p>

## Section two

# Headlines - Final (cont)

This table summarises the headline messages for the Authority and the Fund. Sections four and five of this report provide further details on each area.

<b>Completion</b>	<p>At the date of this report our audit of the financial statements of both the Authority and the Pension Fund are substantially complete. The areas that remain are:</p> <ul style="list-style-type: none"><li>— Audit of the Authority's Whole of Government Accounts pack;</li><li>— Finalisation of audit documentation;</li><li>— Review of Pension Fund Annual Report Narrative; and</li><li>— Finalising mandatory work in relation to pension liability disclosures.</li></ul> <p>Before we can issue our opinion we require a signed management representation letter for both the Authority and the Pension Fund.</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 financial statements.</p> <p>In order to issue our Certificate for the year we will need to complete our work in relation to each of the matters set out above.</p>
<b>VFM conclusion and risk areas</b>	<p>We identified the following VFM risks in our External Audit Plan 2015/16 issued in April 2016.</p> <ul style="list-style-type: none"><li>— Achievement of Savings Plan; and</li><li>— Better Care Fund.</li></ul> <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 5 of this report.</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 by 29 July 2016.</p>

## Section three

# Interim Findings - Organisational Control Environment

Your organisational control environment is generally effective overall.

### Work completed

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

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing over all of these controls.

### Key findings

We consider that your organisational controls are generally effective overall.

Our findings in relation to the IT control environment reflects the results of our work undertaken on the general IT controls in operation with regard to each of the Authority's key IT systems.

During the year the Authority has continued to make progress in relation to the adequacy of IT Controls. Despite this we identified a number of new areas where further improvements could be made. These are identified on the following page and in [Appendix 1](#).

Aspect	Assessment	
	2015/16	2014/15
Organisational controls:	3	3
Management's philosophy and operating style	3	3
Culture of honesty and ethical behaviour	3	3
Oversight by those charged with governance	3	3
Risk assessment process	3	3
Communications	3	3
Monitoring of controls	3	3
IT control environment	2	2

Key:

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

## Section three

# Interim Findings - IT control environment

Your IT control environment is effective overall although improvements over the IT control environment, specifically around access, changes and maintenance to systems are required.

### Work completed

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 and maintenance, system development and computer operations over the SAP (General Ledger), Civica (Cash Receipting), Northgate (Revenues & Benefits) and QL (Housing) environments.

### Key findings

We note that similar issues have been raised in respect of the IT control environment, specifically in relation to the previous 'Access to systems and data' priority one recommendation that has been raised over the last few years. However it must be noted that these issues were previously accepted by the council, specifically in relation to powerful SAP\_ALL accounts, further work can be completed to mitigate the issues or remove them.

We have raised a recommendation over the segregation of duties issues within SAP change management, this could strengthen the controls around system changes and maintenance. Other improvement areas within SAP include the strengthening the controls of user removal and reinstatement of alerts, which although not relied upon as a control would improve the operation of the system..

There are three recommendations around the control of access to the Northgate system, this includes removal of access for leavers, the strength of the quarterly access review process and an audit over Northgate server access.

We consider that, despite the issues identified, we are able to rely upon the Authority's IT control environment.

Recommendations are included in Appendix 1.

Aspect	Assessment	
	2015/16	2014/15
IT controls:		
Access to systems and data	2	2
System changes and maintenance	2	2
Development of new systems and applications	3	3
Computer operations and end-user computing	3	3

Key:

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



# Interim Findings - Review of internal audit

Following our assessment of Internal Audit, we were able to place reliance on their work (as per agreed coverage) on both the key financial and IT systems.

### Background

The United Kingdom Public Sector Internal Audit Standards ("PSIAS") apply across the whole of the public sector, including local government. These standards are intended to promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

### Work completed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The PSIAS define the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment in 2011/12 against the standards set out in this document in advance of them becoming applicable and as a result developed an action plan against which they have been working to ensure full compliance. They are planning to begin an updated self assessment in the upcoming months.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

### Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we have not identified any significant issues which would indicate internal audit are not compliant with the PSIAS. However our work does not represent and external review against PSIAS, our review is for reliance purposes only and to inform our risk assessment.

We did not identify any significant issues with internal audit's work and are pleased to report that we were able to place reliance on internal audit's work on a number of financial systems.

We are mindful that internal audit plan their work in a manner designed to covers the whole of the Authority's financial year and in some instances, because of the timing of their work, the close down meetings or draft internal audit reports have not been finalised in time for our interim work. As a result of this there was potential that since our review in March, their findings could be revised. Where this happens, additional work would be required to meet our own requirements. Final reports were reviewed and no such work has been required.

## Section three

# Interim Findings - Controls over key financial systems

The controls over the key financial systems are generally sound, with the exception of Payroll, Cash and Council Tax/NNDR which require limited improvements.

Internal audit have raised a number of recommendations during the year. Whilst the majority of these have no impact on our audit, weaknesses in the payroll system will need to be considered as part of our final visit.

### Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditor's opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

### Key findings

Based on our work, and the work of your internal auditors, in relation to those controls upon which we will place reliance as part of our audit, the key financial systems are generally sound.

Issues identified by Internal Audit include; management review of bank reconciliations, retention of Northgate to Valuation Office Agency reconciliations and payroll exception reports. In all cases the reconciliations were found to be completed accurately, however formal sign off was not completed or retained.

Recommendations in relation to any weaknesses identified have

already been raised by Internal Audit and as a result will not be repeated in this report.

Financial system	Assessment	
	2015/16	2014/15
Payroll costs	2	2
Cash and cash equivalents	2	2
Housing Benefits	3	n/a
General Ledger	3	3
Council Tax and NNDR	2	n/a
Purchases	3	3
HRA	3	n/a

Key:

- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.
- n/a Not assessed

## Section four

# Financial Statements - Proposed opinion and audit differences

Our audit has identified a total of two audit adjustments.

There is no net impact of these adjustment on the general fund.

### Proposed audit opinion

Subject to all outstanding matters being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts.

### Audit differences

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

The final materiality level (see Appendix 5 for more information on materiality) for this year's audit was set at £12 million. Audit differences below £0.6 million are not considered significant.

Our audit identified a total of two material audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements. There are no unadjusted audit differences.

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 2016.

There is no net impact on the General Fund as a result of audit adjustments. This is due to the adjustments being classification errors.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

### Movements on the General Fund 2015/16

£m	Pre-audit* (£'000)	Post-audit (£'000)	Ref (App.3)
Deficit on the provision of services (Excluding HRA)	60,478	61,200	1 & 2
Adjustments between accounting basis & funding basis under Regulations	(59,077)	(59,799)	1 & 2
Transfers to earmarked Reserves	(1,460)	(1,460)	-
<b>Increase in General Fund</b>	<b>59</b>	<b>59</b>	

### Balance Sheet as at 31 March 2015

£m	Pre-audit* (£'000)	Post-audit (£'000)	Ref (App.3)
Property, plant and equipment	1,030,997	1,028,918	2
Other long term assets	33,019	33,019	-
Current assets	99,900	106,048	1
Current liabilities	(124,081)	(124,081)	-
Long term liabilities	(973,942)	(973,942)	-
<b>Net worth</b>	<b>65,893</b>	<b>69,962</b>	
General Fund	(12,206)	(12,206)	-
Other usable reserves	(90,305)	(96,453)	1
Unusable reserves	36,618	38,697	2
<b>Total reserves</b>	<b>(65,893)</b>	<b>(14,204)</b>	

# Financial Statements – Proposed opinion and audit differences (cont)

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

We 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 by 29 July 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

### 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 in respect of its format and content which the Authority has agreed to amend where significant.

### Narrative Statement

We have reviewed the Narrative Statement and confirmed that it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

In addition, we confirmed that the Narrative Statement generally complies with the CIPFA Code requirements but we have made a recommendation in respect of missing content per the Audit and Account Regulations 2015 which the Authority has agreed to amend in the 2016/17 statement of Accounts. See [Appendix 1](#) for recommendations.

### Pension fund audit

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

For the audit of the Fund we used a final materiality level of £25 million. Audit differences below £1.25 million are not considered significant.

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

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

### Pension Fund Annual Report

We have not yet reviewed the Pension Fund Annual Report and as a result are yet to confirm that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.



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

## Section four

# Financial Statements – Significant risks and key areas of audit focus

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

This table sets out the outcome of our audit procedures.


Areas of significant risk	Summary of findings
 <p><b>Audit areas affected</b> — All areas</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p><b>Audit areas affected</b> — None</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

## Section four

# Financial Statements – Significant risks and key areas of audit focus

In our *External Audit Plan 2015/16* we identified one new area of audit focus. This was considered a significant risk where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

This table sets out the outcome of our audit procedures.

Areas of significant risk	Summary of findings
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>— Statement of Accounts</li> </ul>	<p>We reviewed the processes which the Authority has implemented to identify the appropriate costs and contribution to be recognised in its financial statements to ensure that they are effective and appropriate.</p> <p>We subsequently:</p> <ul style="list-style-type: none"> <li>— agreed the value of costs and contributions allocated to the Authority to supporting records and documents;</li> <li>— confirmed that the wider values disclosed in relation to the overall Better Care Fund agree to supporting records; and</li> <li>— checked that the disclosures related to the Better Care Fund are in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting in 2015/16.</li> </ul>

## Section four

# Financial Statements – Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

### 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	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 2 June 2016.  The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our Accounts Audit Protocol including our required working papers for the audit on 5 May 2016.  The quality of working papers provided was high and fully met the standards specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved all audit queries in a timely manner.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. The Fund continues to produce financial statements to a high standard.

### 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.

There was one recommendation in our ISA 260 Report 2014/15 relating to schools bank reconciliations, which was;

- An excel template for bank reconciliation's should be distributed to all schools. A review should be undertaken for schools that would benefit from further training.

The Authority has implemented a new process to ensure that bank reconciliations have been completed consistently.

## Section four

# Financial Statements – Completion

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.

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 2016, we confirm that there were no relationships between KPMG LLP and Wiltshire Council and Wiltshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

### Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

The only such matter to report is in relation to an elector question. Following some initial work undertaken we concluded that no detailed work was required.



## Section four

# Financial Statements – Key accounting judgments and related disclosures

The Authority has applied a reasonable on key accounting judgements.

Level of prudence

0 Audit difference

1 Cautious

2 Balanced

3 Balanced

4 Optimistic

5 Optimistic

6 Audit difference

Acceptable range

Cautious means a smaller asset or bigger liability; optimistic is the reverse

Assessment of subjective areas				
Accounting Area	Current year	Prior year	Balance (£m)	KPMG comment
<b>Revaluation</b> Carrying value of PPE	3	3	1,028	<p>The revaluation has been carried out by GVA Grimley, the method used is to assess Current Value or Existing Use Value. For specialist properties such as schools Depreciated Replacement Cost method has been used under IAS16.</p> <p>The rates used were compared to industry standard rates, they showed lower value increase than the County as a whole, but reflected the Salisbury local index for where the majority of the council housing is situated.</p> <p>There were a limited number of immaterial assets that had been missed during the revaluation programme and therefore not revalued within the stipulated 5 year period per the Code. This was, however, noted by the finance team and plans have been put in place to include these within the next revaluation programme. It has not been raised as a recommendation as plans for the solution to the issue has already been implemented.</p>
<b>Pension Liability</b>	2	2	543	<p>The change in pension liability is largely driven by a change in assumptions applied by the actuary, this reflects the changing economic climate. Judgements made on the pension liability are complex and numerous. The assumption used by the actuary have been compared to those of KPMG's own actuarial specialists with no significant variances.</p>
<b>Provisions</b>	2	2	4.2	<p>The level of provisions has decreased in the year, mainly due to reduced termination and land charges provisions. The amounts unused in 2015/16 was £290k, largely relating to insurance claims, this relates to 7% of the balance. The largest provision is for Business Rate Retention Scheme Appeals at £1.7m, which was fully used in the year, with additional provisions made.</p> <p>The Authority still remain on the cautious side of the prudence range and are considered to have sufficient provisions in place.</p>

# VFM Conclusion

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

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

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

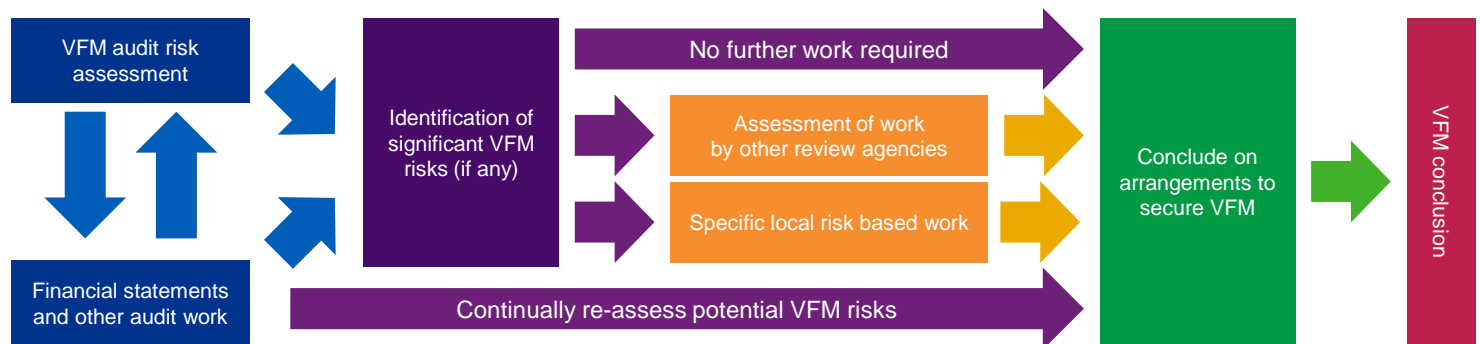
## Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



## Overview of the VFM audit approach

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

**Overall criterion**  
 In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM sub - criterion	Met
Informed decision making	✓
Sustainable resource deployment	✓
Working with partners and third parties	✓

## Section five

# VFM Conclusion – Specific VFM risks

We have identified two 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; and

- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

### 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>The Authority identified the need to make savings of £30m in 2015/16. At the time of our planning work, the period 9 forecast showed that the Authority would deliver a £3m overspend against its budget before management actions. Additional savings were sought to offset this and the resulting forecast for 2015/16 was a breakeven position.</p> <p>The Authority's budget for 2016/17 was approved at the Council meeting on 23 February 2016 and recognised a need for £26m in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £126m will be required over the period 2017/18 and 2020/21 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p>	<p><b>Specific risk based work required:</b> Yes</p> <p>Despite challenging savings targets for the year, the Authority's final outturn position was an under spend against budget of £0.066m. In addition, the final position of the general fund was £12.206m compared to £10.019m as predicated in the financial plan.</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, particularly in Adult Social Care Operations, Operational Children's Services and Learning Disability. 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>

Section five

# VFM Conclusion – Specific VFM risks (cont)

We have identified two 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>As set out on page 14, the Better Care Fund (BCF) represents a significant development for local authorities and their NHS partners. Whilst Wiltshire Council was part of the pilot scheme for the Fund, the need to ensure that appropriate governance structures are in place remains essential. Without such, there is a significant risk that funds contributed by the Authority will fail to deliver the desired outcomes and benefits (both for the public and for the Authority). One of the key challenges in establishing effective governance arrangements is the need to balance the demands of the Authority and partnering Clinical Commissioning Group.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p><b>Specific risk based work required: Yes</b></p> <p>We reviewed the governance structure and processes which the Authority has put in place in relation to the management of the BCF and the way in which this was designed to ensure that the objectives of the fund are met.</p> <p>We have also reviewed the budget for the year, both for month 9 and month 12. It can be seen that the budget is updated between the months with up to date information. However, currently most of the spend is reimbursed on a retrospective basis and therefore there is not much tracking of live budgetary information. In correspondence with management we confirmed that this is because most of the BCF schemes already existed before the BCF agreement. In the future, it is planned that as the schemes originate out of BCF managed funds, then the schemes will be required to provide up to date financial information so spend can be monitored at a strategic level.</p> <p>It is appropriate to conclude from our work that the Authority has the tools in place in order to achieve VFM. There are some areas of weakness, e.g. most of the expenditure is currently communicated retrospectively and the monitoring of targets is being discussed and updated, although we would expect to see a Performance Scorecard introduced once comparable information is available.</p>



# Appendices

# Key issues and recommendations

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<b>1</b>	<b>Priority one:</b> 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.	<b>2</b>
		<b>Priority two:</b> 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.
		<b>3</b>
		<b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Narrative Statement</b></p> <p>The is the first year under which the Authority must report a narrative statement at the beginning of the Statement of Accounts, this has replaced the explanatory foreword however it is intended to provide a greater focus upon the Authority’s operational performance throughout the year, including non-financial metrics. The draft narrative statement submitted by the Authority is largely a rolled forward explanatory foreword rather than a bespoke narrative statement.</p> <p><b>Risk</b></p> <p>The narrative statement may not deliver the user the information as intended per the CIPFA Code and the Accounts and Audit Regulations 2015.</p> <p><b>Recommendation</b></p> <p>The narrative statement should be rewritten for the 2016/17 statement of accounts to ensure that it fully adheres to the CIPFA Code guidance.</p>	<p><b>Management response</b></p> <p>Agreed, guidance has just been issued by CIPFA and the s151 Officer has been engaged in the production of those notes and will draft an early template for 2016/17 based on the 2015/16 Accounts.</p> <p><b>Responsible Officer</b></p> <p>Michael Hudson (Associate Director of Finance)</p> <p><b>Due Date</b></p> <p>7 April 2017</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<p><b>SAP Powerful User Access</b></p> <p>We noted that a total of 9 dialog and 2 service accounts, see <a href="#">Recommendation 3</a>, held access to the powerful SAP_ALL profile. We would not typically expect to see any unlocked accessible accounts holding SAP_ALL access. The dialog accounts include 7 CGI generic accounts (2 of which were locked at the time of testing), the SAP OSS account and an account held by the SAP Application Support Manager.</p> <p>We recognise that monthly monitoring procedures are in place over the majority of these accounts. These are designed to identify suspicious or unauthorised activity and are seen as a positive control to have in place. We noted, however, that improvements are required in relation to these controls, see <a href="#">Recommendation 4</a>.</p> <p>We note that the use of SAP_ALL is a risk which is recognised and accepted by the Authority.</p> <p><b>Risk</b></p> <p>SAP_ALL allows unfettered access across the system, allowing changes to be made to system parameters. As such this access should be strictly controlled as it poses a high risk to the effective operation of the system, segregation of duties controls and data integrity.</p> <p><b>Recommendation</b></p> <p>Use different 'Firefighter' accounts to provide properly defined support roles, which can provide access needed to deal with differing types of incident. Typically this would take the form of Firefighter accounts set up for functional support (e.g. split by business process) and those set up for technical support (e.g. with only Basis transactions). This allows the maintenance of some segregation of duties.</p> <p style="text-align: right;"><i>[Continued on next slide]</i></p>	<p><b>Management response</b></p> <p>As in previous audits, this finding is recognised and understood, and as mentioned in the finding itself has been an accepted risk by the Council for some years.</p> <p>However, ICT have identified a solution for this and this will be implemented in the next few months.</p> <p><b>Responsible Officer</b></p> <p>Stuart Honeyball</p> <p><b>Due Date</b></p> <p>30 November 2016</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
		<p><b>SAP Powerful User Access (cont.)</b></p> <p>Implement a formal procedure for the unlocking and use of these accounts and ensure that SAP_ALL access is used as a measure of last resort only, via the unlocking of a particular Firefighter account holding this access.</p> <p>Once this procedure has been implemented it should become the only means by which an individual may access the system with SAP_ALL access.</p>	
3	2	<p><b>SAP Powerful User Access - Incorrect Account Types</b></p> <p>Our analysis identified two Service type accounts holding SAP_ALL access. It appeared that these accounts were in fact used by the system rather than by individuals. However, a Service type user allows log on by multiple users at a point in time meaning it would be possible for an individual to use these accounts inappropriately.</p> <p><b>Risk</b></p> <p>SAP_ALL allows unfettered access across the system. As such this access should be strictly controlled as it poses a high risk to the effective operation of the system, segregation of duties controls and data integrity.</p> <p>We would not typically expect to see any unlocked accessible accounts holding SAP_ALL access. Unlocked service type accounts with this level of access present the risk that unapproved individuals may gain unrestricted access to the SAP system without the knowledge of system support personnel. It is further noted that service type accounts may be accessed by multiple users at any given time.</p> <p><b>Recommendation</b></p> <p>Change the two Service type accounts to a System or Communication type user as appropriate, following checks to ensure technical feasibility and the ongoing functionality of the accounts, thus preventing access from individuals.</p>	<p><b>Management response</b></p> <p>These 2 accounts are set as Service accounts as they have been since their creation on 2009. We will investigate whether changing the user type to B-System will have any adverse effects on system running. If not, we will amend to type B.</p> <p><b>Responsible Officer</b></p> <p>Stuart Honeyball</p> <p><b>Due Date</b></p> <p>31/08/2016</p>



# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	2	<p><b>SAP Powerful User Access – Monitoring of SAP_ALL accounts</b></p> <p>We noted that although monthly monitoring controls are in place around the use of accounts with SAP_ALL access:</p> <ul style="list-style-type: none"> <li>— no instances of client opening were recorded although our analysis identified that two accounts were not being monitored;</li> <li>— An account with lower privileges and an account locked at the time of testing were taking up monitoring slots, these being limited in number; and</li> <li>— The January 2016 monitoring identified that the Production client had been opened and that the Application Manager had not been informed about this as is required in all such instances.</li> </ul> <p>We were informed that this client opening had occurred accidentally due to human error by third party support personnel. This highlights the high degree of risk posed by placing complete faith in a third party through provision of unrestricted access to Wiltshire Council systems.</p> <p><b>Risk</b></p> <p>See <a href="#">Recommendations 2 &amp; 3</a> for the risk associated with SAP_ALL.</p> <p>Unlocking of the production client allows unrestricted changes to be made to the system without the standard transport route needing to be followed.</p> <p>Failure to effectively monitor high access accounts presents the risk that high risk transactions are carried out inappropriately or maliciously without the knowledge of Application Support personnel.</p> <p><b>Recommendation</b></p> <p>Assess the monitoring controls to determine the specific reason that cases of production client opening were missed, with procedures altered as necessary to ensure the highest risk accounts use the monitoring slots available.</p>	<p><b>Management response</b></p> <p>The monitoring filters have already been amended as suggested in the finding, to ensure the correct users are monitored.</p> <p>With regards to the issue with T000 and client opening via SCC4 by LOGICA_BASIS user, this has discussed with CGI and an email explanation has been received and reviewed by ICT. In order to prevent recurrence of this issue (and as detailed at Finding 1.) we will seek to remove access to the SCC4 transaction from all Logica userIDs.</p> <p><b>Responsible Officer</b></p> <p>Stuart Honeyball</p> <p><b>Due Date</b></p> <p>Monitor change completed in May 2016</p> <p>UserID amendments 30/9/2016</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	3	<p><b>SAP User Administration – Removal of Access</b></p> <p>Our testing of HR listings against active user lists identified one leaver's account had been accessed after the user had left employment with Wiltshire Council. Further enquiry identified that the account had originally been locked by the SAP Support Team. However, the account was then unlocked by the service desk following a verbal request from the user (note that the user needed to answer security questions) and then locked again by SAP Support.</p> <p>We were informed that the service desk did not follow an appropriate procedure in that they should have inspected a leaver's spreadsheet and should not then have unlocked the account without consulting the SAP Support team.</p> <p>We have verified that prior to unlocking of the account, it was stripped from any sensitive roles and only standard Self Service roles remained.</p> <p><b>Risk</b></p> <p>Failure to properly remove access from leaving employees presents the risk of unauthorised access to Wiltshire Council systems, with the potential for malicious activity or data compromise to occur as a result. The risk is increased where a user holds elevated access or leaves under acrimonious circumstances.</p> <p><b>Recommendation</b></p> <p>Remind all users with relevant access of the importance of following appropriate procedures for unlocking SAP accounts. Ensuring that a user is a current employee should be standard procedure for an account to be unlocked. Use of the system by ex-employees should be considered highly unusual and subject to additional controls.</p>	<p><b>Management response</b></p> <p>This was an issue with a member of Service Desk team not following the correct documented process on this occasion. The correct process was reiterated to all service desk managers and staff.</p> <p><b>Responsible Officer</b></p> <p>Jason Atkinson</p> <p><b>Due Date</b></p> <p>Completed in February 2016</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
6	3	<p><b>SAP Scheduled jobs</b></p> <p>We have found that, following the changes made to staging servers, there are currently no automated monitoring alerts for SAP scheduled jobs. As such, where schedules fail application support are not notified of the failures without performing manual checks.</p> <p>We have been advised that the SAP Support team is aware of the issue and it aims to resolve it in the near future.</p> <p><b>Risk</b></p> <p>There is a risk that should a scheduled job fail to complete without the knowledge of application support personnel, crucial business information could be missing from the correct area of SAP. This can result in financial process being delayed or not working as designed.</p> <p><b>Risk</b></p> <p>Reinstate scheduled jobs monitoring. Consideration should be given to ensure that the alerts are designed effectively and acted upon when required. Alerts should be instated for key processes only to cut down on 'noise' from alerting that can result in more important notifications being missed.</p>	<p><b>Management response</b></p> <p>We are aware that the confirmation email notifications referred to in this finding were no longer being produced following a server migration onto a new operating system (for PSN compliance). As discussed with KPMG, these alerts were informational only and did not act as a control or confirmation of successful processing of the files within SAP itself (they related to one part of a chain process only) . As a result we have investigated recreating these alerts on the new OS and consider that the effort to do so outweighs the benefit of the alerts.</p> <p><b>Responsible Officer</b></p> <p>Stuart Honeyball</p> <p><b>Due Date</b></p> <p>No action required</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
7	2	<p><b>Northgate Change Management – Migration of Changes</b></p> <p>We were informed that the ability to migrate changes to the Northgate production systems is governed by access to the 1csrapp61 server. It was not immediately apparent to application support who held this access, and therefore who could perform this high risk task.</p> <p>Further investigation revealed that 372 accounts held access to this location, it being considered that this is an excessive number of users capable of performing a task that should be strictly controlled.</p> <p>We note that despite this, segregation of duties between development and migration is maintained through the fact that no development is carried out internally and Northgate cannot access the Wiltshire network.</p> <p><b>Risk</b></p> <p>The ability to apply changes to the production environment is a sensitive task which can impact the operation of the system if performed incorrectly. Where this access is widely held this increases the risk that segregation of duties is not enforced between development and migration and increases the chance of errors or malicious activity impacting the application.</p> <p>There is the increased risk that inappropriate changes are made unilaterally, without the knowledge or approval of management.</p> <p><b>Recommendation</b></p> <p>Undertake a thorough review of access to this to ensure that it is allocated only to users who specifically require it for the performance of their job role.</p>	<p><b>Management response</b></p> <p>We accept this finding and will conduct an audit of the accounts.</p> <p><b>Responsible Officer</b></p> <p>Tim Crossley</p> <p><b>Due Date</b></p> <p>30 November 2016</p>

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
8	3	<p><b>Northgate User Administration – Removal of Access</b></p> <p>Our testing of 100% of leavers in the period identified two instances where individuals had left their roles with their Northgate access being retained. We were informed that this was caused by a failure in the notification process to the Revenues and Benefits Systems team.</p> <p>We note that the users in question posed low risk due to the fact that they held only read only access to financial information.</p> <p>We note that these users should have been discovered in the quarterly review process performed for Northgate leavers. See <a href="#">Recommendation 9</a> in relation to this.</p> <p><b>Risk</b></p> <p>Failure to properly remove access from leaving employees presents the risk of unauthorised access to Wiltshire Council systems, with the potential for malicious activity or data compromise to occur as a result. The risk is increased where a user holds elevated access or leaves under acrimonious circumstances.</p> <p><b>Recommendation</b></p> <p>The importance of timely notification of leavers to the systems team is reiterated to business departments. Access should in all cases be removed as soon as possible after the noted leaving date.</p>	<p><b>Management response</b></p> <p>R&amp;B application Administration process will be reviewed and amended to use the definitive source of record for staff i.e. HR Records</p> <p><b>Responsible Officer</b></p> <p>Sally Kimber</p> <p><b>Due Date</b></p> <p>31 October 2016</p>

## Appendix 1

# Key issues and recommendations (cont)

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
9	3	<p><b>Northgate User Administration – Reviews of Access</b></p> <p>When considering the reviews performed on a quarterly basis over access to Northgate, we noted that the assessment of whether a seemingly dormant account should retain access to Northgate is often based on whether or not the user continues to have access to the network. This is assessed by checking whether they have a profile on Lync (Skype for Business). Lync access is used as a proxy for whether or not they are still part of the organisation.</p> <p>For one of the exceptions in our sample of leavers (<a href="#">Recommendation 8</a>), we found the person concerned had moved from Wiltshire Council to Wiltshire Police who share the Authority's network and hold Lync accounts. As a result the mover to Wiltshire Police was thought to still be part of Wiltshire Council and their access was not removed. We also note this review method would fail to detect internal movers.</p> <p><b>Risk</b></p> <p>Failure to properly review the appropriateness of access on a periodic basis presents the risk that inappropriate access allocations remain for longer periods, and that missed leavers and internal movers retain access to Northgate.</p> <p><b>Recommendation</b></p> <p>A more reliable means of assessing the status of users is used as a part of the user access review. (E.g. HR records). This will help to ensure that both internal movers no longer requiring access are also captured.</p>	<p><b>Management response</b></p> <p>The R&amp;B Application Administration process will be reviewed and amended as necessary to provide better visibility of leavers and changes so that accounts can be managed on a regular and timely basis</p> <p><b>Responsible Officer</b></p> <p>Sally Kimber</p> <p><b>Due Date</b></p> <p>31 October 2016</p>

# Follow up of prior year recommendations

The Authority has made progress in the implementation of the recommendations raised in our ISA260 Report 2014/15.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Prior Year Issue and recommendation	Management response / responsible officer / due date
1	2	<p><b>Schools Bank Reconciliation's</b></p> <p>We sample tested 10 out of 179 school bank reconciliation's and noted that some of the reconciliation's were completed with errors. These included:</p> <ul style="list-style-type: none"> <li>— Fynamore Community School –The reconciling items report totalled £9,685 when the difference between the cash balance and ledger balance was £9,676</li> <li>— St Josephs Catholic School –A difference between the general ledger balance used in the Bank Reconciliation to that shown on Agresso of £176</li> <li>— Matravers School – A £167 difference due to the incorrect bank statement balance used in the Bank reconciliation</li> </ul> <p>Whilst all these balances are immaterial (total projected error of £2,111) it indicates that the control is not operating effectively and that potentially larger errors may not be identified.</p> <p><b>Recommendation</b></p> <p>An excel template for bank reconciliation's should be distributed to all schools.</p> <p>A review should be undertaken for schools that would benefit from further training.</p>	<p><b>Management response</b></p> <p>Agree. A standard template will be introduced and we will review the need for training.</p> <p><b>July 2016 update</b></p> <p>Training has been issued to the schools and improvements have been reflected in the result of our testing, with clearer bank reconciliations reviewed containing no issues.</p> <p><b>Recommendation closed.</b></p>

# Follow up of prior year recommendations (cont)

The Authority has made progress in the implementation of the recommendations raised in our ISA260 Report 2014/15.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Prior Year Issue and recommendation	Management response / responsible officer / due date
2	2	<p><b>Disaster Recovery Planning and Risk Management</b></p> <p>Currently there is only a very high level Disaster Recovery (DR) Plan in place which was originally developed in 2013 and has not been updated since, despite the recent changes to the Authority infrastructure. The current plan is not scenario based and only provides very general guidance for DR incidents. No DR rehearsals or tests have been carried out in the financial year.</p> <p>The absence of a detailed DR Plan creates an enhanced risk that, in the event of a system failure, the Authority's response will be either incomplete or inefficient. This may result in systems unavailability being protracted.</p> <p>The issue was discussed with management during the audit who recognized the risk posed by a lack of effective DR planning and testing but named resource constraints as reason for the lack of them.</p> <p><b>Recommendation</b></p> <p>A detailed DR plan should be developed, implemented and regularly tested.</p>	<p><b>Management response</b></p> <p>We agree and endorse this recommendation and would say that we take DR very seriously. Whilst we do have an emergent DR Plan, we recognise that it is not complete and will seek to firm it up with scenarios and responses as appropriate and in line with the recommendations outlined in ISO22301. This will be a continuing process and so has no end date</p> <p><b>July 2016 update</b></p> <p>The Disaster Recovery Plan has been developed and delivered and has been reviewed by the Information Governance Board. The Plan is scenario based and considers the high level activities required to effect a successful recovery of ICT services in the event of an ICT disaster.</p> <p>With a primary and secondary data centre in an Active-Active configuration, and all major Line-of-Business application services deployed in a resilient configuration, ICT are confident that the existing DR capability is adequate for the current environment.</p> <p style="text-align: right;">[Continued on next slide]</p>



## Appendix 2

# Follow up of prior year recommendations (cont)

The Authority has made progress in the implementation of the recommendations raised in our ISA260 Report 2014/15.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Prior Year Issue and recommendation	Management response / responsible officer / due date
2	2	Disaster Recovery Planning and Risk Management (cont.)	<p><b>July 2016 update (cont.)</b></p> <p>Active-Active refers to the configuration of the data centres for Disaster Recovery failover. This involves two matched configurations, linked to each other and they exchange data and changes in real time, so if one fails, the other can immediately take over. Data loss is minimal.</p> <p>For completeness, the other possible configuration is Active – Passive, where there are still two matched configurations, but the data exchange is not in real time. If there is a failure on the Active side, then the recovery is slower as data needs to be synchronised. Data loss is likely to be much higher. This is often also called a Hot Standby configuration.</p> <p><b>Recommendation Closed</b></p>

## Appendix 3

# Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £0.6m.

These have been adjusted in the Statement of Accounts.

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

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 2016.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
1	CR Net gain/loss on disposal of fixed assets (£6,148k)	DR Adjustments between accounting basis & funding basis under Regulations £6,148k	DR Debtors £6,148k		CR Useable capital receipts (£6,148)	The proceeds from the sale of the Shurnhold site were received in two tranches, however only the first payment had been recognised in the accounts. The adjustments reflects the total sales price, and the final net gain on disposal. The remaining unpaid balance has been debited to debtors and is due to paid at the end of 2016.
2	DR Culture and related services £6,841k DR Children and Education £29k	CR Adjustments between accounting basis & funding basis under Regulations (£6,870k)	CR PPE (£2,079)		CR Revaluation reserve (£4,791k) DR Capital Adjustment Account £6,870k	Upwards revaluations of the Five Rivers Leisure Centre (£6,841k) and Westbury Youth Centre (£909k) were incorrectly credited to the annual depreciation charge rather than being recognised as revaluations.  In addition, a late change to the Fiver Rivers valuation resulting in a downwards revaluation of £2,079k had not been accounted for.
	<b>£722k</b>	<b>(£722k)</b>	<b>£4,069k</b>	<b>-</b>	<b>(£4,069k)</b>	

# Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

## Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*'The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so.'*

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 Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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 PCC and CC.

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.

# Declaration of independence and objectivity (cont)

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.

### 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.

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 2015, we confirm that there were no relationships between KPMG LLP and the Wiltshire Council and Wiltshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

# Materiality and reporting of audit differences

For 2015/16 our materiality is £12 million for the Authority's accounts. For the Pension Fund it is £25 million.

We have reported all audit differences over £0.6 million for the Authority's accounts and £1.25 million for the Pension Fund, to the Audit Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £12m which equates to 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 1.4 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.5 million for 2015/16.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m and £1.25m for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



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