



PUBLIC SECTOR

Wiltshire Council

Annual Audit Letter

November 2010

AUDIT

The contacts at KPMG in connection with this report are:

Chris Wilson
Partner
KPMG LLP (UK)

Tel: 0118 964 2238
christopher.wilson@kpmg.co.uk

Darren Gilbert
Senior Manager
KPMG LLP (UK)

Tel: 029 2046 8205
darren.gilbert@kpmg.co.uk

Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 audit of Wiltshire Council (the Council). Although addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on the Council's website at www.wiltshire.gov.uk. In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. We have reported all the issues in this letter to the Council throughout the year and a list of all reports we have issued is provided in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code) which requires us to report on:

Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

Financial Statements

We provide an opinion on your accounts, covering both the Council's accounts and those for the local government pension fund which the Council administers.

Fees

Our fee for 2009/10 was £431,319 excluding VAT. This is £31,569 more than our original estimated fee for the year, with additional fees being required due to extra work for the financial statements audit (£27,950) and on the consideration of questions and objections from local electors (£3,619). We will report our fees for grants certification work separately when this work is complete.

Our fee for the audit of the Wiltshire local government pension fund was £46,950, down from our original estimate of £70,900.

We also received additional fees of for non-audit services to the Council of during the last year, namely a review of leisure service options (£16,000) and a post-implementation review of the Council's new SAP system (£35,000). We also received approximately £83,000 in relation to tax advice on VAT claims – these related to work for the now demised Salisbury District Council and West Wiltshire District Council which were paid this year following decisions by HM Revenues & Customs.

This report is addressed to Wiltshire Council and has been prepared for the sole use of the Council. 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. 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 Chris Wilson who is the engagement lead to the Council or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Use of Resources (UoR)

Use of Resources assessment

- In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included auditors' UoR scored assessments at local authorities. However, there is no change to the requirement for auditors to issue a VFM conclusion. At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.
- From our work this year we concluded that the Council has adequate procedures in place for managing its finances. Improvements were seen in a number of areas, notably the financial statements closedown process (see next page). We highlighted scope for further improvements in a number of areas including cost and performance benchmarking, defining a corporate fees and charges strategy and the approach to debt monitoring.
- The Council's governance arrangements remain robust and improvements were noted in data security, addressing issues highlighted through last year's UoR audit. The Council has continued to review, develop and consolidate the governance arrangements it inherited from the predecessor councils.
- The Council continues to actively manage its other resources, with developments noted in many areas. In particular, the Council is pursuing a significant programme to rationalise its estate. Workforce planning arrangements developed during 2009/10 with the Council needing to manage staffing matters following the move to One Council. Our audit did identify some opportunities for further improvement but overall we were satisfied that arrangements were adequate.

Specific risk based reviews

- There were no significant issues arising from any of the specific risk based reviews performed in year.

Our conclusion

- We issued an unqualified value for money conclusion for 2009/10. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This represents an improvement on the previous year, when we qualified our VFM conclusion due to weaknesses in the Council's financial reporting arrangements.

Financial Statements

Annual accounts

- At the start of the 2009/10 financial year the Council introduced a new financial system (SAP), replacing numerous systems operated by the predecessor councils. Any complex IT investment inevitably presents a number of difficulties, but in this case the circumstances around consolidating multiple systems alongside the integration and merger of the five previous councils proved to be very challenging. As a result, it has taken a long time for the Council to implement and embed the new SAP system, including needing to address a large number of control and operational issues. This process continues, although arrangements are now much improved from earlier in the year.
- We undertook a specific review of the process for migrating data from the old systems into SAP. This provided assurance in a number of areas but we also highlighted some useful lessons for the Council to consider when undertaking similar processes to rationalise legacy IT systems.
- We also identified a large number of issues through our Interim Audit (where we test and assess the financial and wider controls in place in the Council). However, we were pleased to report later in the year that the Council had made good progress in addressing a high proportion of our recommendations.
- Last year we highlighted significant weaknesses in the Council's financial reporting arrangements. This year we were pleased to report that the Council has taken significant steps to address those issues. Our audit did identify a number of large amendments to the Council's accounts, but these were of a technical accounting or disclosure nature and none had any ultimate impact on the Council's reported financial performance for the year or its financial position. There remains scope for further improvement in the financial reporting process, but the Council can approach this from a sounder base following the improvements made this year.

Annual Governance Statement (AGS)

- No significant adjustments were required to the AGS.

Our conclusion

- We issued an unqualified opinion on your accounts on 30 September 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.
- We also issued an unqualified opinion on the Pension Fund's accounts.

Recommendations

High priority recommendations

- The Council operated in a highly complex financial and control environment during the last year following the merger of the five previous councils and the implementation of the new SAP system. This resulted in our audit identifying numerous issues for the Council to address and consequently we have issued a large number of recommendations during the year through various audit reports:
 - our Interim Audit Report in June 2010 contained a high number of recommendations concerning financial and IT controls, including 18 recommendations graded as high priority (although we were pleased to note excellent progress by the Council against these recommendations in September 2010, when only two of the high priority recommendations were still to be implemented, both of which had later target dates); and
 - our September report summarising our audit of the Council's financial statements made considerably fewer recommendations than in the previous year – seven in total, of which three were graded as high priority.
- We have not summarised the recommendations in this report because of the high volume, but these can be seen in our detailed audit reports (summarised in Appendix A), all of which are available in the Audit Committee papers on the Council's website.
- We also followed up progress against recommendations made in last year's audit and were pleased to note that 17 of the 18 high priority recommendations had been implemented. We are therefore satisfied that the Council is taking appropriate steps to respond to the external challenge of our audit process.

Exercise of auditors' powers

- We did not issue a report in the public interest or exercise other audit powers in 2009/10. We did receive a formal objection to the Council's accounts from a local elector which we considered carefully, but this did not result in any action.

High profile issues

Economic Downturn and pressure on the public sector

- Following the Comprehensive Spending Review announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local authorities will face 7.1% annual cuts representing 28% reductions over the next four years. The Council will be losing Area Based Grant and specific grant funding, as well as reductions in general revenue support grant.
- Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector and there is a greater 'front-loading' element than had been expected. Detailed analysis will be required as further details of these funding cuts are clarified - the real impact will not be known until the government departments produce their business plans later this year and organisations have a chance to digest the Chancellor's messages.
- The Authority has been preparing for cuts of this magnitude for some time and already has some action in hand to deliver some of the savings and efficiencies which will be necessary, for example through consolidating the Council's management structure and fundamentally reviewing its estate to rationalise future accommodation requirements.
- However, it is clear that the Council, like all public sector bodies, will have to identify and deliver an unprecedented level of financial savings and in doing so will need to consider how best to protect the level and quality of services, especially those provided to the most vulnerable in society. Facing up to these challenges will require revolutionary transformation of public sector services, rather than tinkering. Strong leadership from Members and senior management will be essential. Our future audit work will focus more heavily on how the Council is responding to this challenge.

International Financial Reporting Standards (IFRS)

- Experience has shown that a significant investment of resource is required to deal with the technical accounting requirements for IFRS implementation at an organisation of the size and complexity of a unitary council. We have held meetings with the Finance team in recent months to discuss the requirements and are confident the Council is taking appropriate action to ensure the timescales for implementation are met. This work will continue and accelerate over the next few months.
- We will continue to work closely with Finance staff during the coming months.

Headlines

High profile issues

Treasury management

- The Council continues to have a significant amount of money placed with two banks that were affected by the October 2009 Icelandic bank crisis. The total amount invested originally was £12m. The Council has already received interim repayments of £3.1m from one of the banks concerned and it envisages receiving further instalments in line with that institution's published repayment plan. Overall, it is currently anticipated that all but £2.4m of the original £12m will be recovered.
- The Council continues to apply the accounting treatment as prescribed in the appropriate guidance issued by CIPFA, including recognising an impairment cost for the proportion of the original investments which is currently believed likely to be irrecoverable.

Future audit work

Changes to next year's value for money work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

Acknowledgement

- This has been KPMG's third year as the Council's external auditor – but the first since local government reorganisation – following our appointment as the County Council's auditor by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We look forward to working closely with the Council in the coming year to deliver our next programme of work.

Appendix A: Summary of Reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

All of these reports are available through the Audit Committee papers on the Council's website.

