

Report concerning the audit  
of the financial statements  
to those charged with  
governance

**Wiltshire County  
Council**

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<b>Reference:</b>	WCC SAS 610 report (final)
<b>Date:</b>	19 <sup>th</sup> October 2004

## Introduction

Statement of Auditing Standard (SAS) 610, 'Communication of audit matters to those charged with governance' requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance.

This report sets out the issues arising from the audit of the 2003-04 financial statements. We agreed with the authority that the communications required by SAS610 would be with the Final Accounts Committee. The purpose of this report is to discuss with members of the committee, those matters which seemed of interest and importance to us arising from the audit of the accounts, and which we felt would be helpful to members in appreciating the content of the statement of accounts and the audit opinion. After the discussion, we will provide an audit report to the Treasurer setting out the detailed results of our audit of the accounts together with any recommendations.

As reported in detail last year, the first year in which SAS 610 applied to the audit of your accounts, we are required to report on any of the following matters arising from the audit of your financial statements:

- expected modifications to the audit report
- unadjusted non-trifling misstatements
- material weaknesses in accounting and internal control systems
- qualitative aspects of accounting practice and financial reporting
- matters required by other auditing standards to be reported to those charged with governance
- other matters that we wish to draw to your attention.

## Status of the audit

Our work on the financial statements is substantially complete, although there are a number of significant issues outstanding:

- receipt by the county council of a revised report from the actuary for the purposes of disclosures in the statement of accounts required to comply with Financial Reporting Standard 17 (FRS 17); and completion of our related audit of the actuary;
- receipt of a final statement of accounts for audit from the council reflecting the changes needed from the revised actuary report, and approval by the final accounts committee.
- finalisation of the council's statement on internal control and clarification of the intended means of publishing the statement
- we have yet to request the County Treasurer's letter of management representations to the auditor and intend to do this nearer the time of issuing our opinion.

Subject to the satisfactory resolution of these matters, we anticipate being able to issue an unqualified opinion in advance of the 30<sup>th</sup> November 2004 deadline. Our draft auditor's report is attached at Appendix 1 to this report. If any further issues arise that require reporting under SAS610, we will raise them with the chair of the final accounts committee.

## **Matters to be reported to those charged with governance**

### **Expected modifications to the audit opinion and certificate**

No modifications are expected.

### **Unadjusted non-trifling misstatements**

There are no unadjusted non trifling misstatements in the accounts.

### **Material weaknesses in the accounts and internal control systems**

There are no material weaknesses to report for SAS 610 purposes

### **Qualitative aspects of accounting practice and financial reporting**

There are no issues to report under this heading

### **Matters required by other auditing standards to be reported to those charged with governance**

There are no issues to report under this heading

### **Other matters**

#### **Pensions assets and liabilities disclosures to comply with FRS17:**

2003/04 is the second year of disclosure of pensions liabilities required by FRS 17 and the first year that those figures become part of the council's accounting processes.

To enable the council to comply with the requirements of FRS 17, the actuary provides a report each year to the county council, as to other councils, providing the required estimations of liabilities. In his calculations, the actuary uses a range of assumptions about future pay increases, investment returns and other economic factors. The resulting figures in the accounts are therefore subject to inherent uncertainties.

We were advised during the course of the audit that amendments were needed to the data provided to the actuary for his FRS 17 report to the council. At the date of writing, we have not yet received a copy of a revised report from the actuary. We recommend that internal quality assurance processes be introduced to help ensure the completeness and accuracy of the data spreadsheet provided to the actuary. The audit opinion should not be affected by the changes being made.

#### **Evidencing the ownership and existence of pension fund investments**

The Wiltshire Pension Fund holds over £700m investments. The majority of these investments are stock market investments which are recorded on the stock market 'CREST' investments accounting system.

The CREST system is a 'paperless' system and there is no direct means for auditors to assure the existence and ownership of investments held in the records of the pension fund custodian and the fund managers. Our audit processes include consideration of the investment listings of the custodian and the fund managers, together with external auditor reports (FRAG 21 reports) on the management arrangements and internal controls operated by the custodian and fund managers.

We also take into account internal audit reports of fund managers provided by the society of county treasurers (SCT).

This year we have received FRAG 21 and SCT reports covering 90% of the fund. Because of the value and significance of the investments, we seek to obtain a complete set of FRAG 21 and SCT reports each year. In the light of the earlier closedown and audit deadlines next year, we recommend that steps be taken to provide at the beginning of each audit the relevant reports.

### **Statement on Internal Control**

For the first time this year, the council is required by the Accounts and Audit Regulations 2003 to undertake an ongoing review of the system of internal control, to produce an annual statement on internal control (SIC) and to publish it with the statement of accounts (Regulation 4). This is a development from the previous years' requirement for a statement on the system of internal financial control (SIFC).

However, the SIC is not one of the elements of the statement of accounts listed in the Accounts and Audit Regulations (Regulation 7). Our opinion does not therefore cover the SIC. Nevertheless, the audit report attached at appendix 1 includes a description of our audit responsibilities for reviewing the SIC. These are effectively, to review whether the SIC complies with proper practice and whether the statement is misleading or inconsistent with other information that we are aware of from our audit.

In the event, a draft SIC was provided to us during the course of the audit which acknowledges the need for additional measures to identify controls and development needs for the future. This position is acceptable for this year under first year transitional arrangements. We understand that a final version of the SIC will be provided with the final statement of accounts.

We recommend that for the future, additional measures be taken to ensure timely and full compliance with the statutory requirement to produce the SIC. We are discussing with officers how this might be best achieved.

### **Next steps**

Members of the committee are invited to consider the contents of this report and provide a response to inform our audit report due at the conclusion of the audit. This should lead to the completion of an appropriate action plan in agreement with the County Treasurer.

## **Status of our reports to the Authority**

Our reports are prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

## **Draft Independent Auditor's Report to Wiltshire County Council**

I have audited the Statement of Accounts on Pages 8 to 39 and 41 to 48 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on Pages 8 to 11 and the Pension Funds set out on pages 43 to 44.

This report is made solely to Wiltshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### **Respective Responsibilities of the Chief Financial Officer and Auditors**

As described on Page 4, the County Treasurer is responsible for the preparation of the Statement of Accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly;

- The financial position of the Authority and its income and expenditure for the year.
- The financial transactions of the Wiltshire Pension Fund during the year and the amount and disposition of the funds assets and liabilities to pay pensions and benefits after the year end scheme year.

I review whether the Statement on Internal Control on Page 5 reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government; Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our Audit of the Financial Statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for our report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### **Basis of Opinion**

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed. The work that I carried out also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and timing of those payments.

I planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or other irregularity or error and that contributions have been paid in accordance with the rates and adjustments certificate dated January 2002 prepared in accordance with the scheme rules and recommendations of the actuary . In forming my opinion I evaluated the overall adequacy of the presentation of the information in the financial statements.

### **Opinion**

In my opinion the statement of accounts presents fairly the financial position of Wiltshire County Council as at 31 March 2004 and its income and expenditure for the year then ended.

### **Opinion on the Pension Fund Accounts**

In my opinion the financial statements present fairly the financial transactions of the Wiltshire Pension Fund during the year ended 31 March 2004, and the amount and disposition at the date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year. In my opinion the contributions under the scheme during the year ended 31 March 2004 have been paid in accordance with the rates and adjustments certificate dated January 2002 prepared under the local Government Pension Scheme Regulations 1997.

### **Certificate**

I certify that I have completed the audit of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

**Signature:** .....

**Date:** .....

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