

AUDIT COMMITTEE

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 12 DECEMBER 2017 AT THE KENNET ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.

Present:

Cllr Richard Britton (Chairman), Cllr Stewart Dobson (Vice-Chairman), Cllr Mike Hewitt, Cllr Tony Jackson, Cllr Leo Randall, Cllr Ian Thorn, Cllr John Walsh and Cllr Philip Whitehead

Also Present:

Michael Hudson, Robin Townsend, Ian Gibbons, Darren Gilbert, and Ian Withers.

39 Apologies

Apologies for absence were received from Cllr Tony Deane and Cllr Andy Phillips.

40 Minutes of the Previous Meeting

Resolved:

To confirm the minutes of the meeting held on 26 September 2017.

41 Declarations of Interests

There were no declarations of interest.

42 Chairman's Announcements

The Chairman advised he had circulated proposals to establish a Working Group to explore the remit of the Audit Committee. It was considered the Council's Constitution and Committee Terms of Reference should more clearly identify the roles and responsibilities of the Committee. The Chairman suggested that if such a Working Group be established, any recommendations formed should be taken forward to the Standards Committee and Full Council. The membership of a Working Group was discussed and Cllrs Jackson and Dobson indicated their interest to service on such a working group. It was acknowledged that further work was required to develop proposals for a working group before formal consideration by the Committee.

Resolved:

To note the Chairman of the Audit Committee and officers will meet to discuss the potential for a Working Group to investigate the remit of the Audit Committee and bring formal proposals for a Working Group Terms of Reference to the February meeting

43 **Public Participation**

There were no members of the public present.

44 **KPMG - Wiltshire Council - Annual Audit Letter 2016-17**

Darren Gilbert, KPMG, explained the auditor had issued an unqualified opinion on the Authority's financial statements on 26 July 2017 which meant the financial statements were considered to give a true view of the financial position of the Authority and of its expenditure and income for the year. The statements also included those of the Pension Fund.

Questions were raised as to the impact of the Wiltshire Pension Fund pooling assets into Brunel Pension Partnership; it was understood the auditors for Brunel and the Fund would work together to identify which areas they should focus on. It was also confirmed the Fund's liabilities were Wiltshire specific. The Committee discussed the undervaluing of the Council's housing stock by the external valuer as identified in the report. In response to this it was explained the undervaluation had not resulted in a financial loss to the Council, however the matter had been raised with the valuer which was in the final year of its contract.

Resolved:

To agree the Annual Audit Letter from Wiltshire Council's external auditors.

45 **KPMG - Wiltshire Council - Audit Fee letter 2017-18**

KMPG introduced their 2017-18 Audit Fee Letter which started the process for the 2017-18 audit and the process for fee-setting was explained. A discussion was had on the assumptions used to set the audit fee and it was confirmed KMPG had raised no issues in terms of previous process problems to be addressed.

Resolved:

To agree the audit fee letter from Wiltshire Council's external auditors.

46 **SWAP Internal Audit Activity Update**

The report to Committee updated on the progress of the Internal Audit in respect of delivering the 2017/18 Internal Audit and Counter-Fraud Plans, managing response to audit recommendations and the Council's overall control environment.

SWAP highlighted key improvements had been made since the last report to Committee and many outstanding issues had since been addressed. The Chairman commented he was pleased with the report and implementation of the audit recommendations.

Committee members asked about the development of the Council's Whistleblowing Policy against fraud and were advised this was in the process of being reviewed to ensure it remained effective. In respect of Housing Benefit Fraud, councillors heard the public could report this through the website and did make use of this facility. Councillors encouraged that the finance team work with Communications to promote the Anti-Fraud Plan. The Chief Finance Officer confirmed the Anti Fraud and Corruption Strategy would be brought to the April meeting of the Committee.

The process of the Healthy Schools work was discussed and it was highlighted 12 of the 14 schools had been audited. The Chairman thanked SWAP for an improved and comprehensive report.

Resolved:

To note the Internal Audit Activity for 2017/18 and the outcomes of audit and counter fraud work completed to date.

To encourage liaison with the Council's Communications team to promote the Counter-Fraud Plan.

47 **Forward Work Programme**

The Committee considered its Forward Work Programme and requested it be used to forecast further meetings ahead.

Resolved:

To request the Forward Work Programme be extended to cover future meeting dates.

48 **Date of Next Meeting**

The next meeting was to be held on 14 February 2018.

49 **Urgent Items**

There were no urgent items.

(Duration of meeting: 2.00 - 3.00 pm)

The Officer who has produced these minutes is Libby Johnstone, of Democratic Services, direct line 01225 718214, e-mail libby.johnstone@wiltshire.gov.uk

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Annual Audit Letter 2016/17

Wiltshire Council



kpmg.com/uk

December 2017

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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.psa.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 (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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

The contacts at KPMG in connection with this report are:

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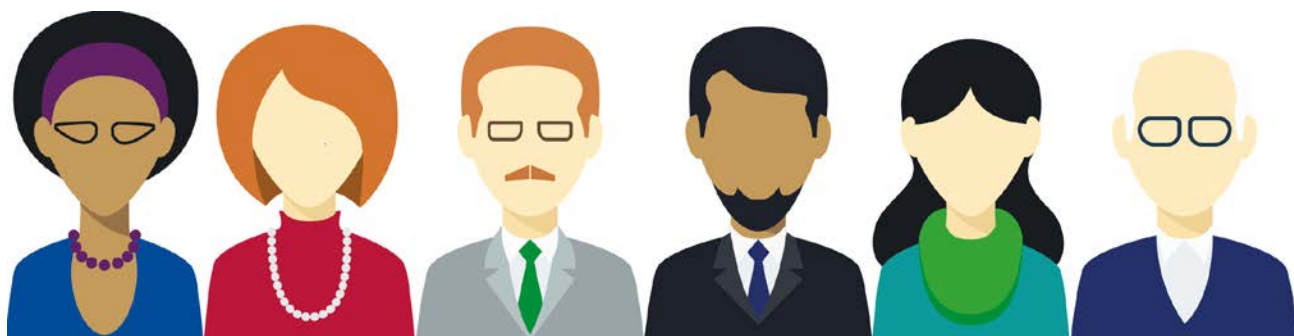
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Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at Wiltshire Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 26 July 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified a significant matter in relation to the delivery of savings plans. We reviewed the Medium Term Financial Plan and assessed its reasonableness. Whilst it is believed that the plan is broadly suitable, it will be challenging to deliver the transformational change needed to meet future savings targets. However, the Authority continued to achieve savings targets for 2016/17 and therefore should be well positioned to achieve future requirements.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 26 July 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.



Section one

Financial statements audit

We identified a significant audit risk in respect of our audit of the Authority's financial statements which related to the changes in the pension liability as a result of the triennial valuation. We reviewed the process used to submit payroll data to the Pension Fund and tested the year-end submission process and controls. The assumptions used by your actuary were compared to industry standards, as well as being reviewed by our internal actuarial team. We also substantively agreed the total figures submitted to the actuary to the ledger and engaged with our colleagues in the Pension Fund audit team to gain assurance over the pension figures. No issues were identified as a result of this work.

Our overall audit work identified three audit adjustments with a total net value of £33.9 million. These adjustments related to:

- A balance of £6.9 million owed to Swindon Borough Council being show as "sundry creditors" rather than "local authority creditors";
- Correcting the treatment of gains and losses on investment properties so that they are taken to the Capital Adjustment Account (via the Comprehensive Income & Expenditure Statement) rather than directly to the Revaluation Reserve; and
- The use of an incorrect adjustment factor by the Authority's external valuer when determining the value of social housing stock resulting in assets being undervalued by £33.9 million.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Pension fund audit

There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.

Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that, following an update to reflect the audit misstatements identified as a result of our financial statements audit, the Authority's pack was consistent with the audited financial statements.

High priority recommendations

We raised one high priority recommendations as a result of our 2016/17 audit work. This is detailed in Appendix 1 together with the action plan agreed by management. This recommendation related to the resolution concerns identified in relation to the Authority's IT control environment. A more detailed report was issued separately to management setting out a range of recommendations to address each specific area of concern.

We will formally follow up this recommendations as part of our 2016/17 work.


Certificate

Following completion of our work in relation to the Authority's Whole of Government Accounts submission and the review of the Pension Fund Annual Report, we issued our certificate on 30 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2016/17 was £180,562, excluding VAT. This is higher than the planned fee of £167,420 as a result of additional work to address failures identified in the Authority's IT control environment. Further detail is contained in Appendix 3.

Key issues and recommendations

No.	H/M/L	Issue and recommendation	Management response/responsible officer/due date
1		<p>IT Control Failures</p> <p>As a result of our audit work over the Authority’s IT systems we identified a number of significant weaknesses. As a result of this, we were unable to place reliance upon the automated controls operating within these systems and additional work was required in order to gain assurance over system reports. The control failings identified can be summarised as follows:</p> <p><i>SAP IT Issues</i></p> <p>The Authority had previously implemented a process to monitor the use of the extremely powerful SAP_ALL access profile. Due to staffing changes in August 2016, these accounts were not appropriately monitored during the year after that period.</p> <p>Therefore, there was a potential during the year to have unlimited access to change system parameters and alter audit trails without detection.</p> <p><i>Northgate IT Issues</i></p> <p>There are a high number of Northgate accounts which have access to systems underlying database. The testing performed in 2016/17 has confirmed that this includes the ability to delete records and change reporting functionality without testing or approval.</p> <p>These issues have meant that extensive additional testing had to be performed in the year, including lowering the performance materiality threshold and increased substantive testing over management provided reports.</p> <p>Due to the critical and sensitive nature of the issues identified, a separate IT report has been issued detailing the full range of SAP issues and our recommendations.</p> <p>Recommendation</p> <p>Ensure that the agreed recommendations set out in the separate IT report are actioned in a timely manner.</p>	<p><i>SAP IT Issues</i></p> <p>Point agreed and actions taken. All access was removed from all dialog SAP accounts at various points during the financial year, with the last one removed 5 January 2017. No dialog users therefore now have access to SAP-ALL. Action now complete, but area will be continually reviewed as part of normal controls procedures.</p> <p><i>Northgate IT Issues</i></p> <p>Point agreed and actions taken. Immediate action was taken to clear out all user accounts that have no need to access the domain at this level. Accounts were also removed during the 2016/2017 financial year. Action now complete, but area will be continually reviewed as part of normal controls procedures.</p> <p><i>Other</i></p> <p>The other medium and low risk IT issues have also been discussed and appropriate actions taken. Most have actions have already been completed.</p> <p>Responsible Officer</p> <p>Steve Vercella (Head of ICT)</p> <p>Deadline for Implementation</p> <p>High risk areas Complete.</p> <p>Most medium and low risk already complete, but final target 31/12/2017</p>

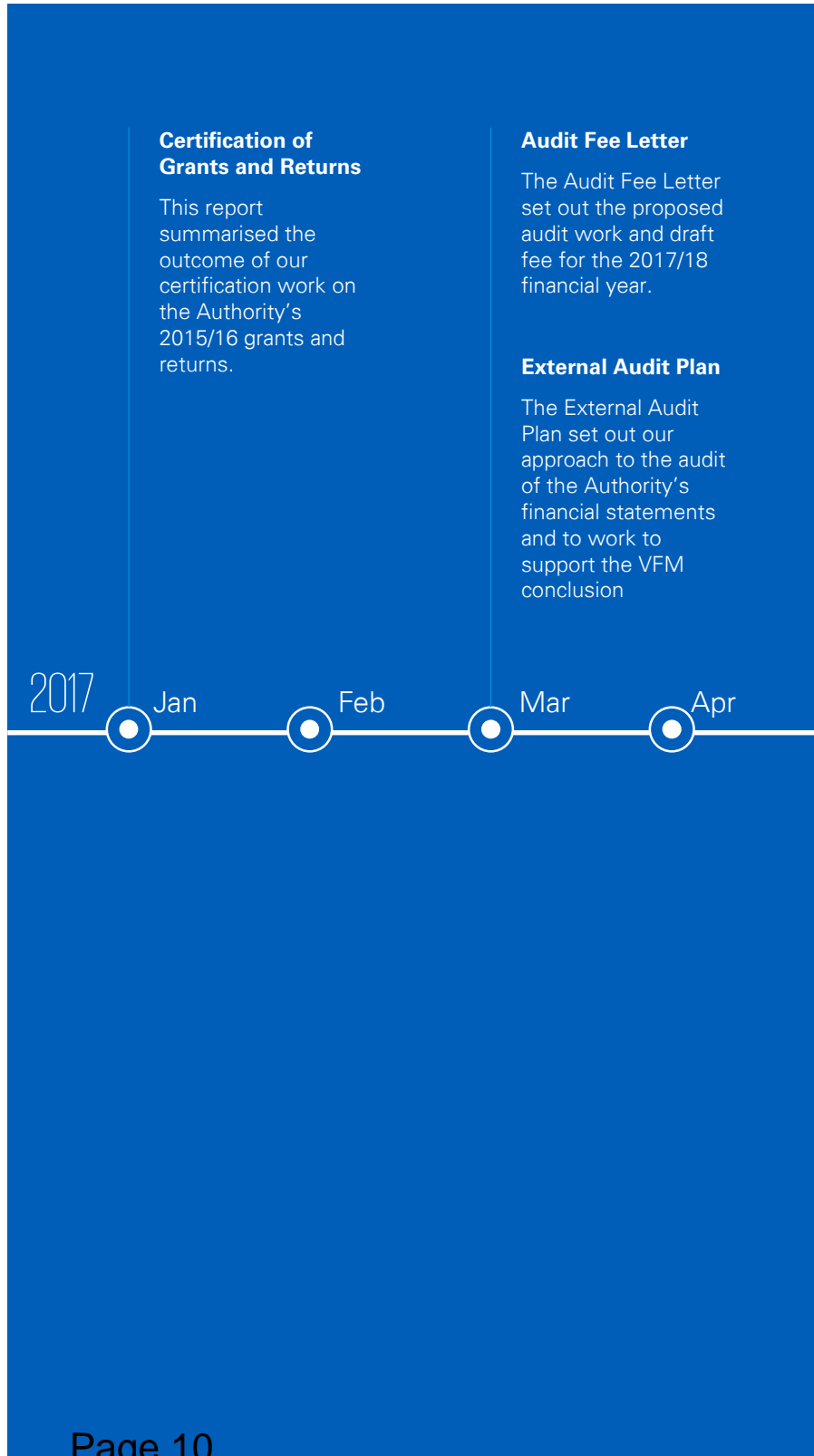
Follow up of previous recommendations

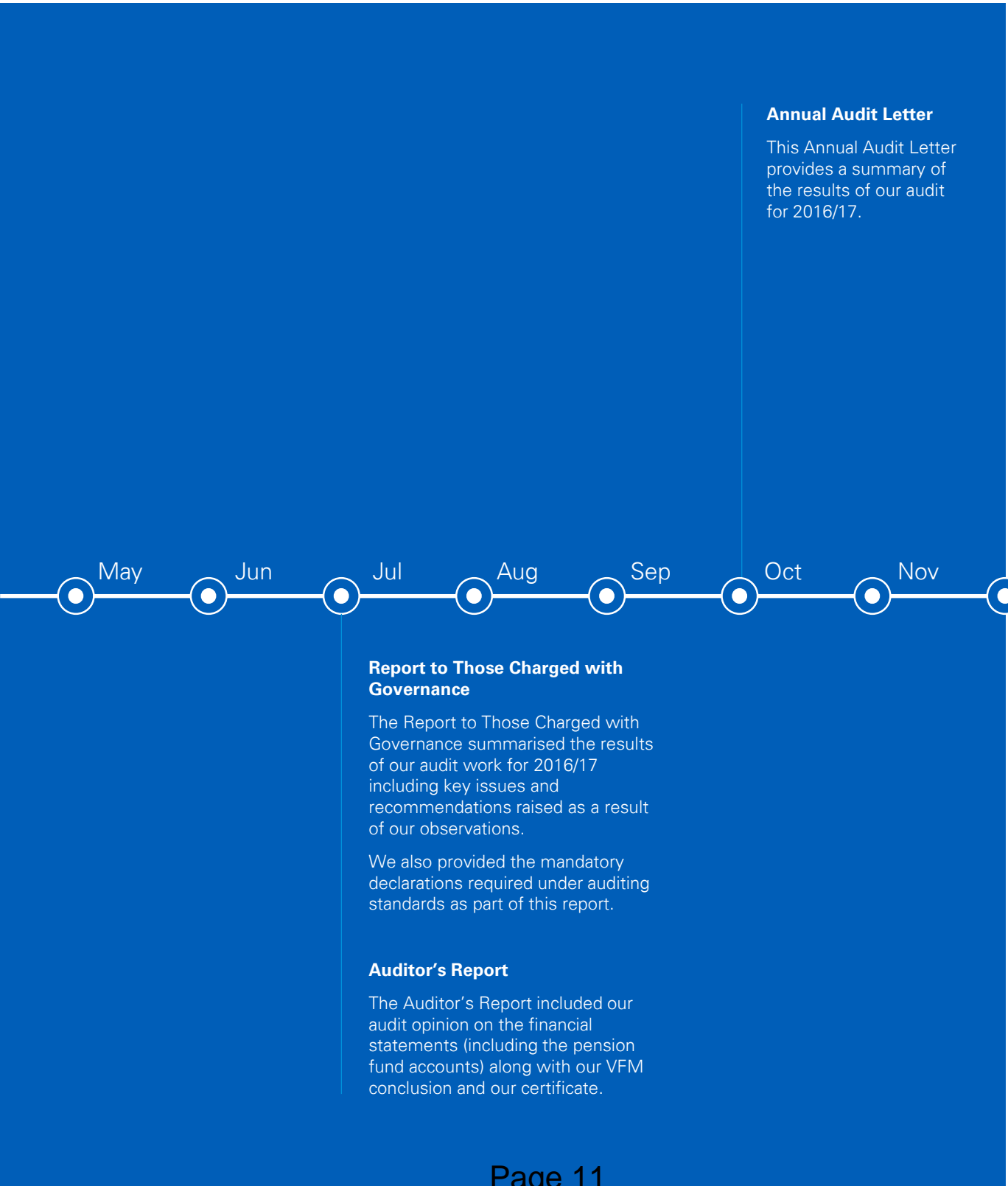
As part of our audit work we followed up on the Authority’s progress against previous audit recommendations. We are pleased to report that there were no high priority recommendations raised in the prior year and that the sole recommendation raised (low priority) has been implemented in full.

Summary of reports issued

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

These reports can be accessed via the Audit Committee pages on the Authority's website at www.authorityname.gov.uk.





Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements (including the pension fund accounts) along with our VFM conclusion and our certificate.

Appendix 3

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit [of the Authority] was £180,562. This compares to a planned fee of £167,420. The increase in fee reflects the extent of additional work that was required as a result of the issues identified in the Authority's IT control environment. This additional fee still subject to final determination by Public Sector Audit Appointments.

Our final fee for the 2016/17 audit of the Pension Fund was £25,678 which compare to the planned fee of £24,246. This was for the work on behalf of other admitted body auditors and has been approved by both the Authority and PSAA.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018 but will be in line with planned fee of £21,165.

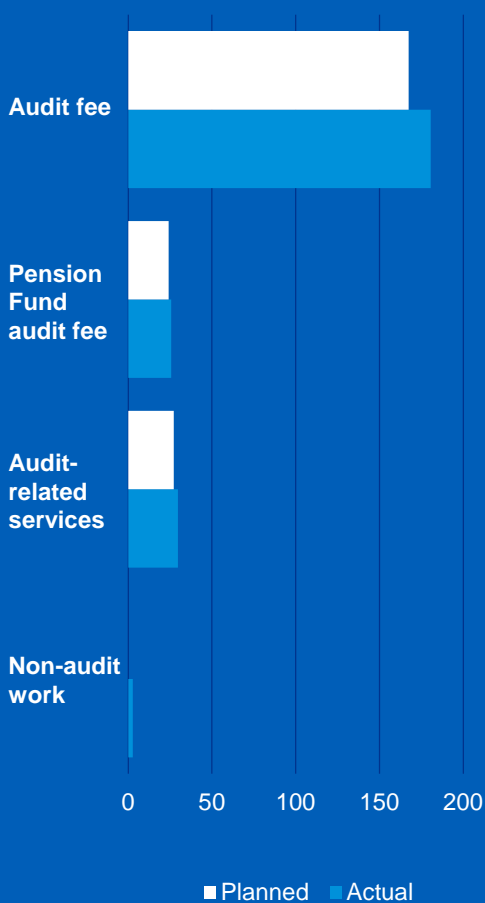
Other services

We charged £6,000 for additional audit-related services for the certification of the Pooling of Housing Capital Receipts Return and the Teachers' Pensions Agency Return which are outside of Public Sector Audit Appointment's certification regime.

In addition, we charged £2,500 for the completion of a Homes & Communities Agency compliance audit in relation to funding received by the Authority to support the development of new housing in the region.

We also charged £2,700 for further work in relation to the provision of a review of the Authority's Medium Term Financial Planning processes. This work was commenced during 2015-16 and was not related to our responsibilities under the Code of Audit Practice.

External audit fees 2016/17 (£'000)



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