

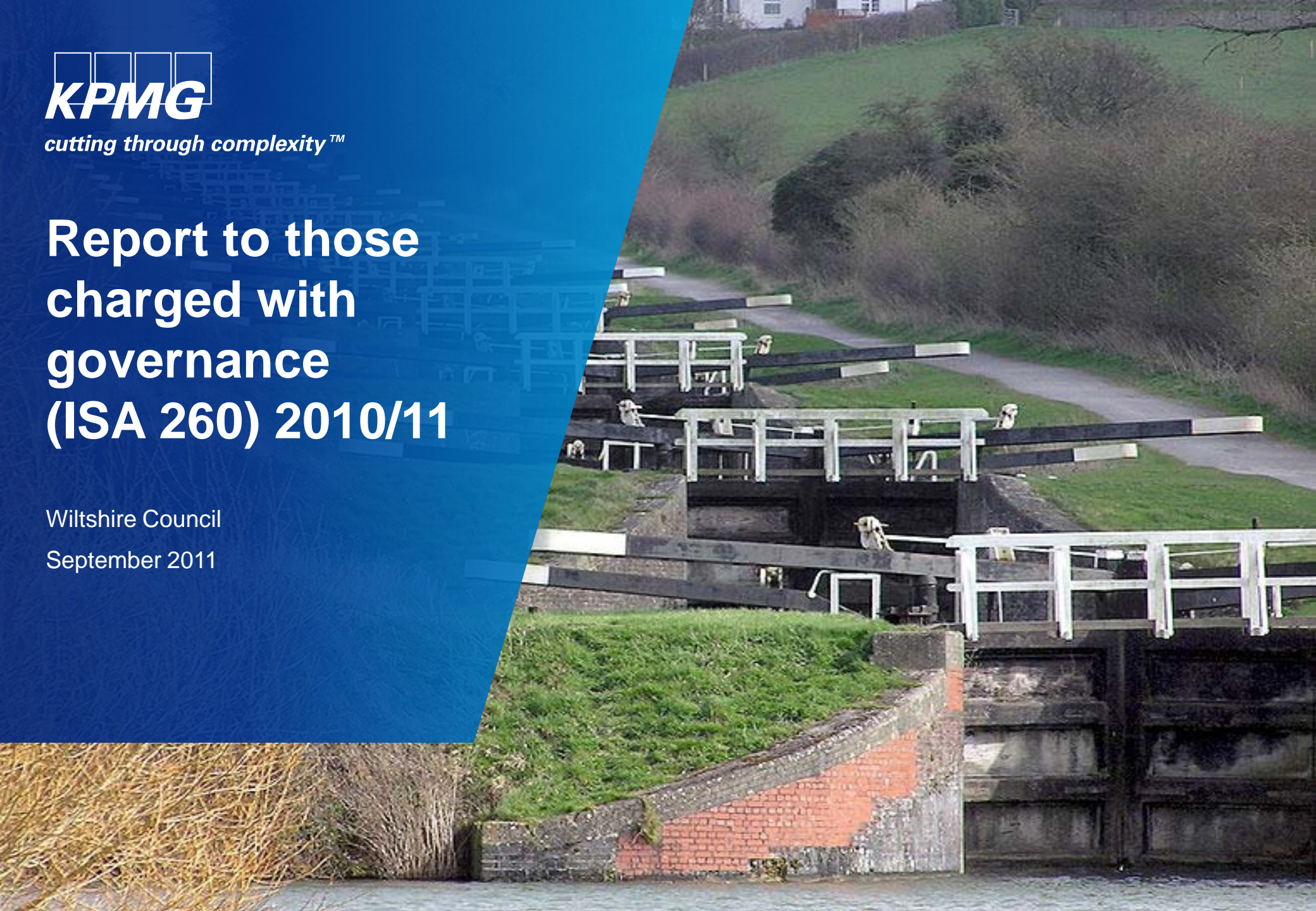


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Report to those charged with governance (ISA 260) 2010/11

Wiltshire Council

September 2011



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This report is addressed to the 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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This report summarises:

- the key issues identified during our audit of Wiltshire Council's financial statements for the year ended 31 March 2011; and
- our assessment of the Council's arrangements to secure value for money (VFM) in its use of resources.

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you in June 2011, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in June 2011

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we issued our *Interim Audit Report 2010/11*.

Our final accounts visit on site took place between 4 July and 9 September 2011. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

Like all authorities, the Council is facing unprecedented financial pressures and must take radical steps to ensure it continues to deliver value for money through its services in the face of reduced government funding.

We have now completed our work in respect of the 2010/11 VFM conclusion. This included work to address the specific risk areas identified in our *VFM Audit Plan 2010/11*.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the 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 year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

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

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion by 30 September 2011.</p> <p>We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>
Audit adjustments	<p>Our audit has identified a number of adjustments to the draft financial statements, however these are all classification errors and as such have no impact on the overall reported financial position or performance.</p> <p>This result demonstrates the high level of care and resource that the finance team put into preparing the financial statements and the working papers for audit. We have included details of all significant audit adjustments at Appendix 3.</p>
Critical accounting matters	<p>We have worked with officers throughout the year to discuss specific risk areas, particularly around the implementation of International Financial Reporting Standards (IFRS). The Council addressed the issues appropriately.</p>
Accounts production and audit process	<p>The quality of the accounts and the supporting working papers provided to us was excellent. Officers dealt efficiently with audit queries and the audit process has been completed to the planned timescales. It should be noted that this has been achieved whilst coping with the department restructuring and the transition to IFRS which resulted in a significant amount of additional work for ourselves and Finance staff.</p> <p>The Council has implemented almost all the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p>
IT control environment	<p>Our work has confirmed that we are again unable to rely fully on the operation of key automated controls within these systems. As a result of the additional IT audit work required both during and after the interim audit visit, we have agreed with management to charge an additional fee.</p>
Completion	<p>At the date of this report our audit of the financial statements is complete. Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.</p>
VFM conclusion	<p>We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
VFM risk areas	<p>We have considered the specific VFM risks we set out in our VFM Audit Plan 2010/11. There are no matters which we need to bring to your attention.</p>

Proposed opinion and audit differences

We identified one issue in the course of the audit that was considered to be material. However this was a classification error and has no impact on the financial position reported. The error has been corrected in the final set of financial statements.

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011.

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.

We identified one material misstatement, which has been adjusted by management, this was a reclassification and does not impact the reported numbers in the table on the right. There were no uncorrected audit differences, other than those which we believe to be clearly trivial.

The tables on the right show the Council's movements on the general fund for 2010/11 and the balance sheet as at 31 March 2011 as being the same for both pre and post audit versions of the financial statements.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the General Fund 2010/11		£m
		Pre- and Post-audit
£m		
Surplus or (deficit) on the provision of services		(68.0)
Adjustments between accounting basis & funding basis under regulations		61.3
Transfers (to)/ from earmarked Reserves		6.9
Increase/(decrease) in General Fund		0.2
Balance Sheet as at 31 March 2011		£m
	Pre-audit	Post-audit
£m		
Property, plant and equipment	991.5	993.3
Other long term assets	46.7	46.7
Current assets	163.8	163.8
Current liabilities	(118.0)	(118.0)
Long term liabilities	(618.8)	(618.8)
Net worth	465.2	467.0
General Fund	(13.9)	(13.9)
Other reserves	(451.3)	(453.1)
Total reserves	(465.2)	(467.0)

The review of your IT control environment is now complete.

Results of our work confirm that we are again unable to rely fully on the Council's general IT control environment.

Work completed

When we reported in June, following our interim audit, we were not in a position to conclude on the Council's IT control environment.

We have now completed our review over the general IT control environment for the key financial systems. The results of our work confirm that we are again unable to rely fully on the operation of key automated controls within these systems.

Key findings

Following the findings of our 2009/10 audit, management worked hard to address the issues identified and have made significant improvements. However, the timing of the improvements means they were not implemented until the second half of the financial year. As a result, the improved controls were not in place for the whole year, which we require to be able to place reliance on the key automated controls.

In addition, although progress has been made there are still a number of issues which need further attention to strengthen the IT control environment. The assessments provided in the table to the right are therefore consistent with those issued last year.

The issues identified through our work are summarised below:

- There are limited informal monitoring procedures in place surrounding Council staff and Logica SAP support staff who have powerful user access rights within the SAP production environment. Although there are detailed contractual obligations in place between the two parties, from an audit point of view there are no adequate controls to gain comfort that this level of access has not been used inappropriately by an individual user e.g. to bypass operational segregation of duties controls, to directly change underlying data or to make unrecorded changes to the SAP production environment.

- For other in scope applications (e.g. Northgate SX3, Academy, IBS Open Revenues and Civica Icon) there are no formal monitoring procedures in place surrounding Council staff and third party remote application support providers who have powerful access rights within the live environments. Therefore the same potential concerns as noted above for the similar SAP issue also apply to the other systems.
- For all of the non-SAP key financial systems (i.e. Northgate SX3, Academy, IBS, Civica Icon and Simdell) there is an inappropriately large number of network user accounts with powerful access to the operating systems (and potentially the underlying databases). This means there is a much higher risk of this access being used to potentially cause loss or unauthorised amendment of key data and system downtime (intentionally or accidentally).

Aspects	2010/11 Assessment	2009/10 Assessment
Access to systems and data	2	2
System changes and maintenance	1	1
Development of new systems and applications	No new systems developed	No new systems developed
Computer operations, incl. processing and backup	2	2

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

Key findings (continued)

- There is a lack of formally documented program and configuration change management procedures for all key financial systems, including limited retention of documents evidencing completion of key stages. As a result of the lack of available evidence we cannot gain comfort that changes made to the production environments of all key financial systems covered here have been tested adequately and approved appropriately (both at the ‘change request’ stage and ‘go-live’ stage).
- Control failures have been identified around user administration procedures, in particular against timely removal of user access for staff leavers. In addition, there is a lack of a formalised and complete regular user access review process across all key financial systems. This means that we gain less assurance that appropriate segregation of duties within an application has been maintained throughout the financial year. Also, it was identified, in a small number of cases, that user accounts associated with staff leavers have not been used in accordance with the Council’s own security policies.
- There are no formal records retained to evidence that scheduled jobs or interfaces between key financial systems are monitored for successful completion. This increases the potential that failed automated job and data interfaces are not identified for resolution, leading to incorrect underlying financial data from incomplete jobs and reoccurrence of the same jobs / interfaces failing again on a regular basis.

The change in January 2011 from core IT operational support tasks being performed by Steria, the former outsourced support providers, to an in-house team at the Council has also caused some issues in the general IT control environment in the short term. This is principally as a result of the transition and the need to amend current processes and set up new procedures.

For example, the reason for the change management process for non-SAP financial systems failing as a control was partly due to a lack of evidence available to show that the process was working. This was as a result of Steria not handing over related records and documentation after the early termination of the Council’s contract with them. Also, the lack of adequate management around powerful user accounts at the Council network level seems to have stemmed from weak controls which Steria were previously responsible for.

Finally, although the key findings above state that the SAP system in particular is still not operating effectively, it should be clearly noted that it is not the system itself at fault for the identified failings, but instead some of the controls around the access, usage of and changes to the system are not as robust as required, to enable KPMG to place reliance on the IT controls.

Summary of effect of key findings on audit approach

It should be noted that the issues identified do not mean there have been fundamental failings in the day to day operation of the Council’s IT systems. Rather, the weaknesses we have continued to identify mean we cannot fully rely upon the operation of certain key automated controls to gain the assurance we require for our audit.

We therefore have needed to review and update our audit strategy and reassess how the risks arising from these IT results impacted on our approach.

As a result of the additional IT audit work required both during and after the interim audit visit, we have agreed with management to charge an additional fee. This fee will be offset against the cancelled 2010/11 audit projects and has the net effect of reducing the overall audit fees for 2010/11. A final fee analysis will be provided in our annual audit letter.

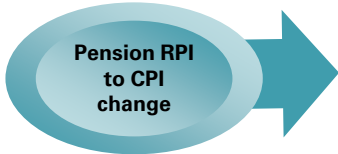
We have worked with officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.



In our Financial Statements Audit Plan 2010/11, presented to you in February 2011, we identified the key risks affecting the Council's 2010/11 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	<p>IFRS Conversion process</p> <ul style="list-style-type: none"> ■ The transition to IFRS represents the largest change in accounting for a number of years. ■ Accounting under IFRS impacts on a number of different areas, in particular property, plant and equipment, leases, employee benefits and group accounts. ■ The Council will require a lot of planning and resources to ensure a smooth and successful transition to IFRS. 	<ul style="list-style-type: none"> ■ Following on from our work carried out at interim we have reviewed the material figures and disclosures in the year end accounts relating to the IFRS conversion. ■ We have not identified any issues. ■ The Council provided detailed working papers to explain the transition.
	<p>Financial standing/medium term financial planning</p> <ul style="list-style-type: none"> ■ Local authorities are facing unprecedented pressure on their finances following the recent Government funding settlement. ■ There is a risk that reductions in staff and increased workload will impact on the operation of financial controls and the accounts closedown process. 	<ul style="list-style-type: none"> ■ We have considered the Council's approach to medium term financial planning and its general financial standing through our work on the VFM conclusion. ■ We have reviewed exceptional costs arising from redundancies as part of our financial statements audit. ■ We have not identified any issues.

Key audit risk	Issue	Findings
 <p>Pension RPI to CPI change</p>	<p>Pension RPI to CPI pension change</p> <ul style="list-style-type: none"> ■ In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). ■ As CPI is generally expected to be lower than RPI in the long term this should in turn lead to lower pension increases in deferment as well as payment. Furthermore the cost of benefit accrual will also be correspondingly lower. ■ The Urgent Issues Task Force (UITF) issued abstract 48 on 20 December 2010 which provides additional guidance on the accounting treatment. The Abstract states that an entity must identify whether its existing obligation is to pay benefit increases based on RPI ("an RPI obligation") or more generally inflation-linked increases. An RPI obligation may be within the formal terms of the scheme or a constructive obligation arising from a public statement or past practice which has created a valid expectation in members of RPI increases. 	<ul style="list-style-type: none"> ■ If an entity has an RPI obligation and changes it, this is a benefit change and any reduction in scheme liabilities is accounted for as a past service cost in accordance with IAS 19. (There would be no reduction in scheme liabilities if an obligation was changed only for future service benefits.) The effect is recognised in the accounting period when any necessary consultations have been concluded or, in the case of a constructive obligation, when employees' valid expectations have been changed. ■ We have confirmed that this is how the actuary has treated the move from RPI to CPI. We have confirmed that the inflation rate of RPI was not referred to in the scheme terms and conditions however RPI has been referred to and inferred in the past in correspondence with members (thereby creating a 'valid expectation'). ■ Therefore we agree with the treatment of the change from RPI to CPI as a change in assumed benefits and for the negative past service cost of £103m to be included in Non distributable costs. The Council apportioned this cost across the service lines in the draft accounts but has made an adjustment for this error. ■ The year end pension liability has reduced from £565m to £311m.

Key audit risk	Issue	Findings
 <p>Accounting for schools</p>	<p>Accounting for schools</p> <ul style="list-style-type: none"> ■ During 2008/09 and 2009/10, audit adjustments were made to the accounts to ensure the correct accounting of the disposal of assets for foundation schools. ■ In addition, we identified a number of control weaknesses surrounding the reconciliations of year end school balances. 	<ul style="list-style-type: none"> ■ The Council reviewed the accounting treatment for Voluntary Aided and Voluntary Controlled schools in 2010/11 and has excluded these assets from the balance sheet. The guidance available for 2010/11 is not explicit and relies on authorities making their own judgement of their circumstances. We consider that the Council’s treatment is reasonable given the guidance currently available. ■ Weaknesses were again identified in the year end bank reconciliations for schools and our prior year recommendation has been reiterated in Appendix 2.
 <p>Financial systems</p>	<p>Financial systems</p> <ul style="list-style-type: none"> ■ During our 2009/10 audit we identified a number of concerns over the operation of controls on the new SAP system. ■ As a result, we performed additional substantive testing for the year-end 2009/10 audit. 	<ul style="list-style-type: none"> ■ We have completed a review of the IT control environment during 2010/11 and concluded that we are again unable to rely fully on the operation of key automated controls within the IT systems. This has been reported in pages 5 and 6 of this report. ■ The recommendations arising from our review of the IT control environment are detailed in Appendix 1.

We have noted that the accounts and the supporting working papers were well prepared and of an excellent standard.

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

The Council has implemented almost all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Council’s accounting practices and financial reporting.

We also assessed the Council’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 Council has a structured financial reporting process which provides reasonable assurance that the accounts are prepared to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2011.
Quality of supporting working papers	Our <i>Prepared by Client</i> list, which we issued on 27 April 2011 and discussed with Finance staff, sets out our working paper requirements for the audit. The quality of the working papers provided was excellent. The working papers requested by KPMG as part of the accounts audit protocol were all provided by finance on time. The working papers were clearly referenced and a good trail existed.
Response to audit queries	Staff were available when required throughout the audit. All additional audit queries were resolved in a reasonable time.

Prior year recommendations

In our *Interim Audit Report 2010/11* we commented on the Council’s progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

The Council has now implemented almost all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Appendix 2 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council'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 for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 included a copy of a representation letter as Appendix 5. We have provided a template to the Chief Financial Officer. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

We followed a new VFM audit approach this year.

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

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.



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

Conclusion

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Key issues and recommendations

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

The Council 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		
<p>1 <i>Priority one:</i> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	<p>Direct changes to live environment – SAP</p> <p>Although it was identified that the SAP live environment was currently locked for direct unrecorded changes, there is no alerting or tracking process in place to note when it needs to be unlocked for direct change. This is principally required for changes needed to configure settings within the live environment.</p> <p>The ability to unlock the SAP production environment for direct unlogged changes is limited to powerful users. However, as noted in recommendation number two, the monitoring process in place around these powerful users is informal (for both Council and third party staff), therefore currently there is no formal record retained when these types of changes are required to be made.</p> <p>Recommendation</p> <p>Introduce immediate logging / alerting of when the SAP production environment needs to be unlocked for direct changes to be made and ensure an adequate audit trail is recorded and retained every time for independent review of appropriateness.</p>	<p>Council policy requires changes to follow a prescribed process of being piloted in a Development system, before undergoing User Acceptance Testing in the Quality Assurance system. Once testing is complete and signed off by stakeholders the change is transitioned into live under change control.</p> <p>Changes to SAP are logged and are reported on in the Council's ICT service management tool.</p> <p>It is standard practise to keep SAP live locked for direct changes unless a tested, signed off change is raised under the change control process (as described and monitored above). Rights to unlock SAP are restricted to a small pool of SAP specialists.</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	1	<p>Monitoring of powerful application user accounts</p> <p>SAP</p> <p>The number of users allocated to the powerful SAP_ALL role has decreased from last year. However, the overall number of user accounts given powerful access within SAP via other methods (e.g. the ability to use higher level functionality) should be lowered further, as some were identified during the audit work as not requiring this higher level of access.</p> <p>Although detailed logging was enabled within SAP for a small number of these powerful users, this was not started until November 2010 and due to internal logistics and low number of technically trained staff, no formal review procedure of these logs could be implemented.</p> <p>It is noted that third party SAP support company Logica started providing internally generated logs on a monthly basis from June 2010 onwards for review by the Council, giving login details around the use of the six SAP_ALL user accounts allocated to them. However, these logs are reviewed on an informal basis and do not contain details of what the usage was for.</p> <p>Recommendation</p> <p>Continue to identify where powerful user access can be removed if it is not deemed absolutely necessary. Also, consider the use of real-time alerts when non-Logica powerful user accounts are used for 'appropriate use' type review, and request usage details in the Logica-provided logs for a more focused review (including a more formal / documented sign-off process).</p>	<p>A full review of SAP super users was undertaken following the previous audit, and numbers of users were reduced to those who had essential need for the SAP_ALL role</p> <p>Access reviews will continue monthly with annual reviews of super user access.</p> <p>The Council has a documented process for monitoring the assignment of the SAP_ALL profile to SAP users. This includes when SAP_ALL is removed and added to a user's profile.</p> <p>The original list of SAP_ALL accounts has been enhanced by an Excel report which shows historic data. This report is reviewed and updated monthly.</p> <p>Other high levels of authorisation are monitored by a standard SAP report</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3a	1	<p>Change management procedures</p> <p>SAP</p> <p>Although a change process flow was in place through the year, it was not formally documented as a procedure. This meant that the key stages (e.g. change request approval, results of testing, go-live approval, etc.) were not formally signed off.</p> <p>However, it is appreciated that a more formal and documented change management process is currently being discussed and agreed with Logica, which will create an adequate trail of appropriate sign-off at each key stage.</p> <p>Recommendation</p> <p>Ensure the new process agreed between Logica and the Council includes an adequate level of sign-off by appropriate staff at each key stage and that this is formally documented and retained for future reference.</p>	<p>Changes to SAP follow the ICT change management process and are logged in the ICT service management tool. These records are retained for future reference.</p> <p>A process is in place to capture change details, testing processes and completion, required sign-off etc in a standard template.</p> <p>To improve the efficiency of the process, functional process owners are now required to sign off changes <u>in addition</u> to IT specialists.</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3b	1	<p>Change management procedures <i>Civica Icon systems, revenues and benefits systems and Simdell</i></p> <p>No evidence is retained to support that testing was undertaken internally of vendor issued patches/releases or that formal communication is made with the relevant vendor to approve migration of these changes into the related systems live environment. Also, evidence could not be produced to show appropriate internal approval had been made for each sampled change prior to making the relevant change.</p> <p>Although remote access into the relevant production environment for each system (not relevant for Simdell) is via a secure connection, it was noted that the network accounts used by each vendor were enabled for use, at the time of our audit, for all systems. Council policy states that these types of accounts should only be activated for a short period of time when support work is required and approved. These accounts were also noted as not being subject to password change.</p> <p>Recommendation</p> <p>Ensure Council policies around change management are adhered to with regards to recording / retention of documentation produced for each key stage in the change management process and also for the default disabling of network user accounts used by third party support providers for remote access.</p>	<p>Testing is completed on Civica Icon prior to changes to the live system under the change process described in answers above. Going forward documentation will be maintained to detail testing.</p> <p>Following the IT restructure, change management has been enhanced and will be adhered to. Required documentation will be produced and retained as appropriate. Monitoring is in place to ensure that this occurs.</p> <p>Standard policy is for 3rd party access to be enabled and disabled according to need.</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	1	<p>Use of shared accounts for application administration duties</p> <p>Revenues and benefits systems</p> <p>It was noted across all four revenue and benefit systems that system administration duties are performed using at least one shared generic account, albeit by a small number of known Council staff with the relevant passwords changed on a regular basis. Exceptions to this however were identified as follows:</p> <ul style="list-style-type: none"> ■ password for the powerful AISDBA user account for Academy (South) is not subject to periodic change; and, ■ two out of the three powerful user accounts in IBS Open Revenues are not actively used and should at least be locked, if not considered for deletion. <p>There is no independent monitoring / review process in place over usage of these powerful user accounts, including those used by relevant third party support providers.</p> <p>Civica Icon systems</p> <p>Four generic accounts with system administration privileges were identified within the Civica Icon Workstation system, where login credentials were stated to be unknown and not documented, with only one being known as to its actual use.</p> <p>In addition, 25 accounts with system administration privileges were identified within the Civica Icon Webpay system, five of which were not associated with an individual user and 15 of which were confirmed by the system administrator as no longer required.</p> <p>Simdell</p> <p>One generic powerful user account was identified as being used by both the system administrator and the third party support provider. Although only a small number of known people use this account, the password was stated as not being changed over the last few years. Also, there is no independent monitoring / review process in place over usage of this powerful user account.</p> <p>Recommendation</p> <p>Review all current user accounts with system administrator privileges for appropriateness of ongoing use. Create separate assigned powerful user accounts between the system administrator and the third party support provider. Also, introduce a regular independent monitoring process over these powerful user accounts (especially those used by the third party support provider).</p>	<p>Revenues and benefits systems</p> <p>Currently in the process of implementing a new system and access controls will be reviewed as part of the set up.</p> <p>Due date: Jan 2012 but currently in progress</p> <p>Civica icon</p> <p>Users have been reviewed since the audit, as part of the regular systems reviews, and high level access has been removed To ensure only appropriate access. This will be regularly reviewed under the new processes.</p> <p>Due date: Now addressed and completed</p> <p>Simdell</p> <p>In process of implementing a new system and the access controls will be reviewed as part of the set up.</p> <p>The system password is hard coded into critical processes. A password change is complex and may easily impact infrequently run processes, affect mission critical services potentially occurring weeks or even months after the password was changed</p> <p>The feasibility of a password change is being investigated.</p> <p>Due date: July 2012</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	1	<p>Use of shared accounts for database administration duties</p> <p>Revenues and benefits systems</p> <p>Access control deficiencies were noted against the underlying databases across all four revenue and benefit systems as follows:</p> <ul style="list-style-type: none"> ■ for Northgate SX3, 240 accounts were identified as being active, the majority of which the actual use could not be ascertained; ■ for Academy (West), four generic accounts were identified, three of which are not subject to password change . However, one of the accounts was deleted during the audit; ■ for Academy (South), three generic accounts were identified, two of which are not subject to password change; and ■ for IBS, one generic account was identified which was not subject to password change. <p>It was also identified that there is no independent monitoring / review process in place over usage of these powerful user accounts, including those used by relevant third party support providers.</p> <p>Civica Icon Workstation</p> <p>Three generic user accounts with powerful direct access to the underlying database to Civica Icon Workstation were identified as not being subject to periodic password change.</p> <p>It was also identified that there is no independent monitoring / review process in place over usage of these powerful user accounts, including those used by the third party support provider.</p> <p>Recommendation</p> <p>See comment made against issue number four, and in particular for Northgate consider immediate review and reduction in the number of excess accounts, especially in the development stage of the new Northgate system in December.</p>	<p>Revenues and Benefits</p> <p>A new system is being implemented with a target live date of November 2011. The number and type of accounts will be monitored and managed.</p> <p>The generic accounts are often required to enable key application processes and interfaces to other applications to run. Generic account management is being reviewed and has been improved on the Council's SQL database resource for example. These principles are being applied to the new Revenues and Benefits systems.</p> <p>In some cases accounts cannot be deleted without losing audit trails. Therefore unused accounts will be disabled.</p> <p>Due date: Nov 2011</p> <p>Civica</p> <p>The system requires a limited number of standard passwords in order to operate. This is according to standard vendor configuration.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
6	1	<p>Domain / server administrator access</p> <p>Network</p> <p>It was identified that 178 active network user accounts were assigned powerful network domain administrator level access to the primary Council network. Of these, a total of 52 were not assigned to any specific individual (i.e. classed as generic) and 49 are not subject to periodic password change.</p> <p>It was noted through discussion with Information Security staff that an exercise was currently in progress to identify where this access was not appropriate to reduce the total number. The exercise also includes enforcement of complex passwords on these powerful network user accounts which will become subject to periodic change.</p> <p>It was also identified that 260 active network user accounts were assigned powerful server administrator level access across all servers within the Council server population (including those relating to key financial systems, excluding SAP). Of these, a total of 41 were not assigned to any specific individual and 40 are not subject to periodic password change.</p> <p>Further discussion with Information Security staff identified that for the generic accounts noted above, the password details for an unknown number had been mislaid during handover process of IT operational service provision from Steria to the Council. The above noted exercise also includes the need to reset these password details.</p> <p>Recommendation</p> <p>Ensure continuance of the internal review and update procedures noted above, ideally to be completed as soon as possible and reduce the number of domain and server level administrator accounts to appropriate and acceptable levels.</p>	<p>Administrator accounts are used by some systems to allow them to run specific services that allow automated business functions to operate. Hence these accounts are not assigned to individuals.</p> <p>Due to the complexity of the services they run it is extremely difficult, high risk and time consuming to change. For example data transfer processes may rely on an account.</p> <p>Administrator accounts are being reviewed as staff are allocated new roles in the ICT restructure. Processes are in place to ensure new applications/services are implemented with permissions/account subject to appropriate control.</p> <p>The review of accounts and account permissions will be an ongoing process for both Information Services (operational) and the Information Assurance team (assurance).</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
7a	2	<p>User access reviews</p> <p>SAP</p> <p>Although it was noted that a review of finance related SAP users for appropriate allocation of access was performed early in 2010/11, this was the only internal function against which an access review was performed.</p> <p>Revenues and benefits systems</p> <p>For three of the four revenue and benefit systems (Academy South, Academy West and IBS Open Revenues), no regular user access review is formally undertaken to confirm the ongoing appropriateness of current access assigned to each user.</p> <p>For Northgate SX3 although it was stated that a bi-annual review is undertaken, no documentation is retained to evidence performance of this.</p> <p>Civica Icon systems and Simdell</p> <p>No regular user access review is formally undertaken to confirm the ongoing appropriateness of current access assigned to each user.</p> <p>Recommendation</p> <p>Review the access assigned to all users on at least an annual basis to ensure the ongoing appropriateness of user access and ensure formally recorded and appropriately signed-off documentation is retained to support performance of this review.</p>	<p>User access is now reviewed and reported on at least annually. For all live finance systems access reviews have or are scheduled to be undertaken.</p> <p>SAP: A review was undertaken in 2010/11. This will be reviewed, now under the normal annual policy.</p> <p>Due date: Now addressed and completed</p> <p>Revenue and benefits system: Access reviews for the new Revenues and Benefits system and housing system will be carried out during implementation. Revenues and Benefits is scheduled to go live November 2011 and Housing March 2012.</p> <p>Performing or coordinating access reviews for finance systems will be the responsibility of the customer access officer to ensure this work is maintained.</p> <p>Due date: Currently ongoing - Nov 2011 and March 2012</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
7b	2	<p>User access reviews</p> <p>Network</p> <p>Whilst it was noted that network access assurance reviews are performed by the Information Security team, a number of related findings confirm that despite this review process there still appears to be a number of network user accounts that need further attention, as follows:</p> <ul style="list-style-type: none"> - 2,965 accounts never logged into; - 490 accounts where the password cannot be changed; - 1,256 accounts where the password never expires (361 which are active); - 2,857 accounts that are disabled (and could therefore potentially be removed); - 48 accounts that are locked (and could therefore potentially be removed); - 178 active domain administrators; - 260 active server administrators; and - 53 accounts remaining active for staff that have since left . <p>It is appreciated however that there is expected to be a significant amount of effort required to formally review the ongoing appropriateness of all these user accounts before identifying which can be deleted.</p> <p>Recommendation</p> <p>Ensure continuance of the overall network user access review process, with particular focus on the more powerful user accounts.</p>	<p>Information Assurance will be focusing on performing a review of accounts.</p> <p>Information Services will continue to monitor system activity and take operational actions where required. (see 7a answer above)</p> <p>Due date: Now addressed and completed</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
8a	2	<p>Removal of user access for staff leavers</p> <p>SAP</p> <p>Comparison of HR-sourced leavers list to the full SAP user list identified a small number of SAP user accounts that had remained unlocked and available for use after a member of staff had left.</p> <p>Furthermore, 21 of these SAP user accounts initially appeared to have been accessed after the stated HR leave date. Further investigation identified that adequate reasons were ascertained for most of them (e.g. rehire, incorrect HR leave date, late return of IT equipment, etc.), apart from four in particular that could not easily be explained.</p> <p>Given the total number of SAP users we acknowledge that the level of identified discrepancies is relatively small. However, a single case has the potential to cause problems and therefore the Council should aim to have no such discrepancies at all and further investigate the four noted above.</p> <p>Network</p> <p>Comparison of HR-sourced leavers list to the full network user list identified 53 network user accounts that had remained unlocked and available for use after the member of staff had left. Furthermore, 22 of these user accounts appeared to have been accessed after the stated HR leave date.</p> <p>It was also noted that an additional four network domains are still in existence as a legacy of the Council's pre-unitary structure. Whilst the process for removal of network user access covers the primary Council network domain, it is not performed on these four legacy network domains.</p> <p>Recommendation</p> <p>Review the current access removal process to identify where potential improvements could be made to revoke access in a timely manner for user accounts relating to staff leavers and changes in staff position/role.</p> <p>Also, investigate the apparent unauthorised use of network user accounts of staff leavers in 2010/11 after they have left the Council.</p>	<p>SAP</p> <p>The SAP team is piloting a process to monitor leavers and movers daily. This involves comparing HR records with user status. Where HR records show a leaver the account is disabled.</p> <p>Due date: Now addressed and completed</p> <p>The Council has migrated user and PC accounts to a single domain. An ongoing project to consolidate the remaining services into a single domain is due to complete December 2011.</p> <p>Where possible misuse of accounts is identified and a security incident is raised and investigated according to the information security policy.</p> <p>If successful the SAP process being piloted will be extended to cover network and other application access.</p> <p>Due date: Ongoing - December 2011</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
8b	2	<p>Removal of user access for staff leavers Revenues and benefits systems, Simdell</p> <p>System administrators are only made aware of staff leavers at the discretion of individual line managers i.e. information is not sourced directly from HR.</p> <p>Analysis of Simdell identified three user accounts relating to staff leavers that had not been disabled at the time of testing – last login details could not be provided for these user accounts.</p> <p>Civica Icon (Webpay)</p> <p>The Webpay system does not store user name details against individual user accounts, which are set up using the format 'first name and initial of surname'. As a result of this, system administrators cannot viably identify system users and therefore cannot remove access for staff leavers. Relevant testing could also not be performed by KPMG due to this limitation.</p> <p>Recommendation</p> <p>For Simdell and the revenues and benefits systems, amend the leavers notification process to at least include a regular check (e.g. monthly) of a HR-sourced leavers listing against a full user account listing.</p> <p>For Civica Icon (Webpay), undertake a full review of all current user accounts to identify those that are no longer required and adequately rename the remainder to facilitate a more robust access removal process.</p>	<p>A new process has been developed (see 8a above). If successful the pilot of the process to disable accounts in the SAP team will be extended to cover other applications and network access.</p> <p>Review of overall staff leavers process will be undertaken following the move of this pilot process to BAU.</p> <p>Due date: Ongoing Dec 2011</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
9	2	<p>Automated job schedule controls</p> <p>SAP</p> <p>Review of SAP users with the ability to make changes to the automated job processing schedule identified ten users that did not require this level of access.</p> <p>Also, there is currently no formal sign-off or documentation retained to confirm that job completion monitoring checks have been performed. Reliance is placed upon finance staff to check whether scheduled jobs have been completed successfully.</p> <p>Revenues and benefits systems, Simdell and Civica Icon systems</p> <p>Apart from IBS, no formal documentation was identified as being in place outlining the configuration of automated jobs run within/from each system.</p> <p>Also, it was identified that no log is formally maintained to evidence the daily monitoring of automated jobs and although investigation was stated to occur upon job failures, no formal record of this is kept.</p> <p>Recommendation</p> <p>For SAP, ensure that access to control key jobs / interfaces is regularly checked and introduce a procedure to formally record when key jobs / interfaces are monitored for successful completion.</p> <p>For purposes of disaster recovery or the potential need for system rebuild, management should ensure that the configuration and set-up of key system jobs for the non-SAP systems is formally documented. Also, management should consider introducing a procedure to formally record when key jobs / interfaces are monitored for successful completion.</p>	<p>Interfaces between SAP and the new revenues and benefits system and housing system will be documented and made available for appropriate support staff to view. (Revenues and Benefits implementation date Nov 11)</p> <p>Access to controlling key SAP interfaces and jobs etc are being reviewed and managed.</p> <p>Interfaces between SAP and target systems are due to be investigated and addressed as part of the SAP improvement programme.</p> <p>Due date: Complete for SAP Nov 2011 for Revenue and Benefits</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
10	2	<p>Access assigned to new/existing users</p> <p>Revenues and benefits systems</p> <p>The process of requesting access for a new user includes the use of cloning an existing user as a base, creating a risk that the level of access assigned to the new user is not in line with expected requirements of their position.</p> <p>It was also noted there is not a formally documented 'access segregation of duties matrix' in place for any of the four revenue and benefits system that ideally should be used as reference when creating and amending users access, in order to check for and avoid any potential segregation of duty conflicts when assigning further access.</p> <p>Civica Icon Workstation</p> <p>From a sample of ten new user accounts created in the year, line manager approval documentation for seven in total could not be obtained.</p> <p>Simdell</p> <p>User access requests are sent via email to the system administrator for creation/amendment of access. These emails are not retained for future reference.</p> <p>Recommendation</p> <p>For the revenues and benefits systems, this procedure should be considered during the systems development stage of the new revenues and benefits system.</p> <p>For Civica Icon Workstation, review current process around new user account creation and ensure approval documentation is retained for at least 12 months to maintain a full audit trail.</p> <p>For Simdell, retain the user access requests and approval communications for at least twelve months before disposal to ensure a full audit trail is maintained.</p>	<p>Revenues and benefits system procedures will be reviewed as part of the new system implementation due in November 2011.</p> <p>Due date: Nov 2011</p> <p>The new housing system will be set up with appropriate access rights and permission and is due for implementation March 2012.</p> <p>Due date: March 2011</p> <p>All user access requests logged and approved in the ICT service management tool will be retained for at least 12 months.</p> <p>Due date: Now addressed with ongoing work</p>

Appendix 2: Follow up of prior year recommendations

The Council has implemented almost all of the recommendations in our ISA 260 Report 2009/10.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2009/10 and reiterates any recommendations still outstanding.

Number of recommendations that were:

Included in original report	7
Implemented in year or superseded	6
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	1	<p>School bank reconciliations</p> <p>The closedown procedures for the schools bank reconciliations were incorrect as they did not apply a strict 31 March cut-off. This resulted in April 2010 transactions being posted in the 2009/10 financial year which should have been omitted. While this did not impact upon the Income and Expenditure account or the General Fund balance, it did impact on balance sheet accounts.</p> <p>Given the number of schools controlled by the Council there is a risk that if left unaddressed this could lead to a significant misstatement.</p> <p>Recommendation</p> <p>The Central Finance department and the Department For Children and Education should work closely together to review the procedures for closedown of the schools' ledgers.</p> <p>These revisions should be clearly communicated to all the schools and appropriate quality control procedures implemented to ensure the bank reconciliations and ledger balances are accurate.</p>	M Tiller / E Williams January 2011	<p>Outstanding</p> <p>Sample testing of year end bank reconciliations identified three that did not have a cut off date of 31 March. It was also noted during the testing that only three of the bank reconciliations agreed perfectly, with the remaining bank reconciliations having insignificant differences.</p> <p>Management response update Sept 2011</p> <p>A revised set of guidance notes were issued by Accountancy to Schools during 2010/2011. This led to a substantially improved performance from 2009/2010. The process is one of continuous improvement and so the guidance notes will be reviewed again and improved in terms of clarity and significance where appropriate in time for the 2011/2012 closedown.</p> <p>Responsible officers: Elizabeth Williams and Matthew Tiller</p> <p>Due date: March 2012</p>

Appendix 3: Audit differences

Only one material audit adjustment was identified during the course of the audit.

There were no significant uncorrected audit differences.

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 the Council's 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

Management have corrected a number of presentational and disclosure issues identified during the audit.

We have identified one significant audit difference during the course of our audit which has been adjusted in the financial statements. This is set out in the table below.

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Dr Cost of Services £103m					The change from RPI to CPI resulted in a large one-off adjustment to past service costs. This adjustment was incorrectly apportioned over the service headings and should have been disclosed in the Non-Distributed Costs line. This is a classification error and therefore has no impact on the total net cost of services.
Cr Non distributed costs £103m					
£0	-	-	-	-	Total impact of adjustments

Uncorrected audit differences

There were no uncorrected audit differences, other than those which we believe to be clearly trivial.

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

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a 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 for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Wiltshire Council (“the Council”) and of the pension fund, for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Council as at 31 March 2011 and of the Council’s expenditure and income for the year then ended;
- ii. give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The pension fund financial statements comprise the Fund Account and the Net Assets Statement and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Council as at 31 March 2011 and of the Council’s expenditure and income for the year then ended;
 - give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the pension fund financial statements as a whole. A list of uncorrected misstatements is included in the pension fund ISA 260 report.

Information provided

5. The Council has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Council for the purpose of the audit; and
- unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Council has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the

financial statements; and

b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Council has disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Council understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

11. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Council further confirms that:

- a) all significant retirement benefits, including any arrangements that:
 - are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,have been identified and properly accounted for; and
- b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 28 September 2011.

Yours faithfully,

Roy While
Chairman of the Audit Committee

Michael Hudson
Director of Finance

Appendix A to the Management Representation Letter of Wiltshire Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

A housing authority shall present:

- A HRA Income and Expenditure Statement; and
- A Movement on the Housing Revenue Account Statement.

A billing authority shall present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

For pension funds participating in the following pension schemes, pension fund accounts shall be prepared by the local authority that administers the scheme:

- a) the Local Government Pension Scheme (in England and Wales)

The financial statements of a defined benefit pension fund in England and Wales shall contain:

- a) A fund account disclosing changes in net assets available for benefits.
- b) A net assets statement showing the assets available for benefits at the year end.
- c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);

- b) Associates;
- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and
- b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.



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