



LOCAL GOVERNMENT

Wiltshire Council

Financial Statements Audit Plan 2009/10

February 2010

PUBLIC SECTOR AUDIT

Contents

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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. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, who is the engagement partner to the Authority, telephone 0118 964 2269, email christopher.wilson@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Summary

Our audit is divided into:

- use of resources; and
- financial statements.

This document describes how we will deliver our financial statements audit work for Wiltshire Council.

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)*. The Audit Commission's Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility	Risks, proposed work and output
Financial Statements and Annual Governance Statement (page 5)	<p>Key risks identified, which we will consider through our financial statements audit, are as follows:</p> <ul style="list-style-type: none"> ● completion of the transition to a unitary authority and implementation of the Business Management Programme; ● following significant issues identified last year, the need for the Council to improve its closedown processes and arrangements for producing a complete and materially accurate set of financial statements; ● weaknesses in controls and processes over accounting for fixed assets as noted in 2008/09; and ● inherent risks associated with accounting for PFI schemes and valuation of Council assets. <p>Our work will encompass:</p> <ul style="list-style-type: none"> ● reviewing the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication; ● a detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement; ● specific project work on the data migration process to gain assurance on the complete and accurate transfer of data from the previous systems to the new SAP system; ● close liaison with the Finance team to ensure the accounts closedown process is adequately resourced; and ● detailed work over fixed asset balances including additional procedures to mitigate the risks identified above. <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>
Use of Resources	<p>Our work to fulfil our use of resources Code responsibilities will include:</p> <ul style="list-style-type: none"> ● Use of Resources assessment on the 'managing finances', 'governing the business' and 'managing resources' themes; and ● a third phase of our review of the Council's transition arrangements under Local Government Reorganisation. <p><i>The conclusions of this work will inform our value for money conclusion and will also feed into the Audit Commission's Comprehensive Area Assessment.</i></p>

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented earlier in the year. We will outline the scope and approach of our Use of Resources work in separate reports during the year. Details on our pension fund audit will also be reported separately.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements, we are also required to audit and provide an opinion on the 'Whole of Government Accounts' consolidation pack.

Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:

			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	<ul style="list-style-type: none"> Perform risk assessment procedures and identify risks Determine audit strategy Determine planned audit approach 	○	○							
2	Control Evaluation	<ul style="list-style-type: none"> Understand accounting and reporting activities Evaluate design and implementation of selected controls Test operating effectiveness of selected controls Assess control risk and Risk of Significant Mis-statement 			○				○		
3	Substantive procedures	<ul style="list-style-type: none"> Plan substantive procedures Perform substantive procedures Consider if audit evidence is sufficient and appropriate 			○	○		○	○	○	○
4	Finalisation	<ul style="list-style-type: none"> Perform completion procedures Perform overall evaluation Form an audit opinion Audit Committee reporting 			○			○			○

We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information we need to support the financial statements audit.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council and our ability to reply on this work.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2009/10 WGA consolidation pack will need to be produced in accordance with International Financial Reporting Standards (IFRS). It is important that the Council provides us with a complete and accurate pre-audit draft version of the WGA return in line with the Treasury's timetable to allow us to sign our WGA opinion by 1 October.

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified.

Certification of grant claims and returns

KPMG will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Elector Challenge

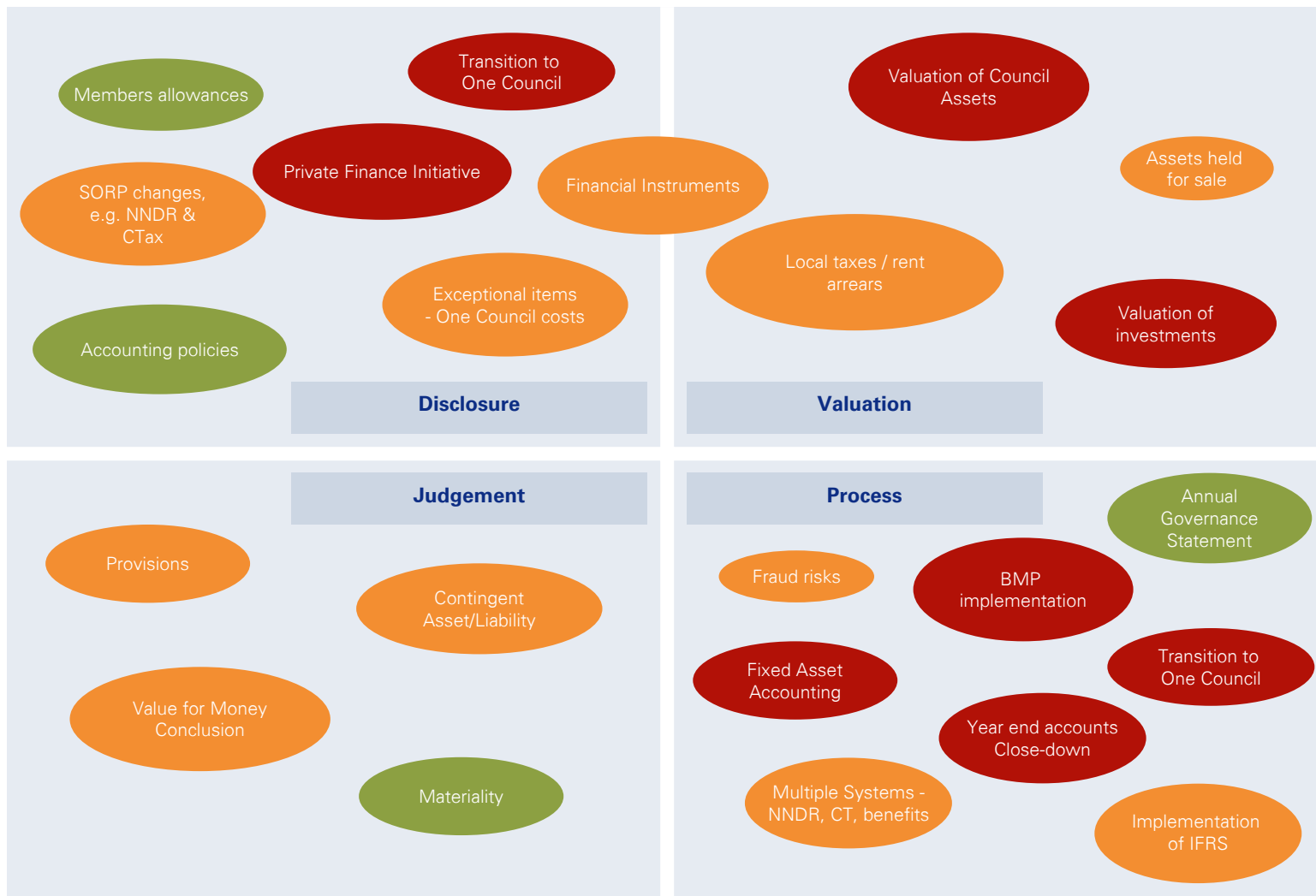
The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Key financial statement audit risks

These are the key financial statement risks identified for 2009/10 and examples of other areas of audit focus. We seek to tailor our audit approach to reflect this.



■ High ■ Medium ■ Low

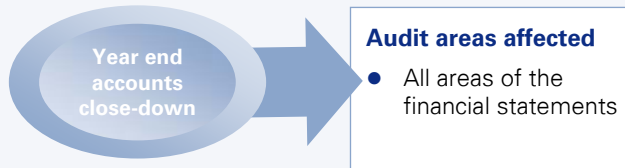
The high risk issues are discussed overleaf

Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit Committee on these risk issues.

KEY audit risks



Impact on audit plan

Year end accounts close-down procedures

- A large number of material errors and omissions were identified in the Council's 2008/09 financial statements submitted for audit, caused in part by weaknesses in the resourcing and planning of the accounts closedown process. The Council has since made changes to address these issues
- We will maintain close liaison with the Finance team to ensure the accounts closedown process is adequately resourced and managed, and clear expectations are in place regarding the timeliness, quality and accuracy of both the financial statements and supporting working papers

Fixed asset accounting and valuation

- Specific areas of concern were noted in 2008/09 regarding the Council's controls over its fixed assets, including monitoring and recording of assets to ensure accounting records reflect the true position, accounting for revaluations and impairment, the timing of fixed asset processes and the correct identification of the capital / revenue expenditure split
- We will re-visit our recommendations from 2008/09 to see if the issues noted have been addressed and appropriate controls and procedures put in place
- We will carry out detailed testing over fixed asset balances to ensure items are capitalised appropriately and revaluations have been dealt with correctly
- We will review third party valuations obtained by the Council to ensure that asset values have been correctly recorded in asset registers and the financial statements, and that valuation assumptions are appropriate
- Specific work will be carried out to ensure assets from all five demising councils have been consolidated and recorded accurately in the financial statements

Business Management Programme

- We will draw on KPMG's IT audit specialists to gain assurance on the accuracy of the migration of data from the five demising financial systems to the new SAP finance package
- We will perform detailed work over opening balances to gain assurance over the opening balance sheet position of the new unitary authority

Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit Committee on these risk issues.

KEY audit risks



Audit areas affected

- All areas of the financial statements



Audit areas affected

- Tangible fixed assets
- Disclosures



Audit areas affected

- Short term investments

Impact on audit plan

Transition to One Council

- We will document and test the controls at each of the Council's hubs, relying where possible on the work of Internal audit. As part of this process we will complete specific work in relation to IT General Controls.
- Where financial information relevant to producing the statement of accounts is maintained on old systems, we will carry out specific procedures to ensure this data is accurately transferred and reconciled to the general ledger
- Specific disclosures will be required in relation to the transition and its associated costs. We will perform procedures to test the completeness and validity of these costs, and review the appropriateness of disclosures with reference to available guidance

Private Finance Initiative

- Wiltshire Council will inherit a PFI funded office, three schools from its predecessor bodies and a planned housing scheme from one of the demising district councils
- These must be accounted for in line with the CIPFA SORP 2009. The SORP adopts IFRS PFI accounting for the first time in 2009 and may result in some assets being accounted for in the Council's balance sheet for the first time
- We will review the Council's current PFI contracts and consider the financial models that have been used to account for these arrangements to ensure that balances have been correctly disclosed in the financial statements

Valuation of Investments

- During the interim phase we will consider the adequacy of the Council's controls over investment management and review these for compliance with the CIPFA Prudential Code
- We will test the Council's investments substantively with particular consideration to the valuation of these balances
- CIPFA are expected to publish revised guidance on the accounting for Icelandic investments and we will review the Council's treatment for compliance with this

Audit Team

Our audit team is largely unchanged from last year; Chris Price replaces Tara Westcott as audit manager. Contact details are shown on slide 1

The audit team will be assisted by other specialist KPMG staff as necessary.



Chris Wilson
Engagement Lead

My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Chief Executive.



Darren Gilbert
Senior Manager

I will provide strategic direction for the audit and will work closely with Chris and Chris to ensure we add value. I will be the main contact for the Chief Financial Officer and other executive directors.



Chris Price
Audit Manager

I will co-ordinate the audit and will work closely with Darren and Chris. I will be the main contact for the Head of Accounts and wider finance team.



Andy Phillips
Audit Assistant Manager

I will be your day to day contact and will work closely with Chris Price and Darren to deliver a co-ordinated and efficient audit.

Independence Confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of February 2010, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Audit Fees

The audit fee has not changed from that agreed in the high level audit strategy earlier in the year.

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment.

Element of the audit	2009/10 Planned
Audit of Financial Statements	
Accounts (Systems, Final and WGA)	£238,200
Use of Resources	
Use of Resources assessment (including projects)	£161,550
TOTAL	£399,750
Audit of Pension Fund	£70,900

Total 2008/09 audit fees for Wiltshire County Council, North Wiltshire District Council, West Wiltshire District Council, Kennet District Council and Salisbury District Council were £592,758. This included additional fees in excess of that disclosed in the audit plan of £35,970 in respect of additional time incurred resolving the many difficulties with the accounts, and £102,000 of additional work in response to issues and risks raised in the year.

The above analysis does not include an estimated fee for the certification of grant claims and returns. We will write to the Chief Finance Officer separately and provide an estimate of the fee when we have a better understanding of the likely scale of this work.

To enable you to benchmark our fee proposal we provide below some comparative information. Please note that the nature of the locally determined work changes each year so that direct comparison between years may not be valid.

Source of fee comparative / benchmark	£
Audit Commission suggested fee range	£235,116 - £436,644
Audit Commission suggested mid-point fee *	£386,100
2009/10 audit fee	£399,750

* The scale fee has changed since our audit fee letter dated 24th March 2009 to reflect revised benchmarking data.

Audit Fees (continued)

Our audit fee is indicative and based on you meeting our expectations of your support as outlined in Appendix 1.

Meeting these expectations will help to the delivery of our audit within the proposed audit fee.

Audit fee assumptions

The audit fee indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Financial Officer.

Audit Timeline & Deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

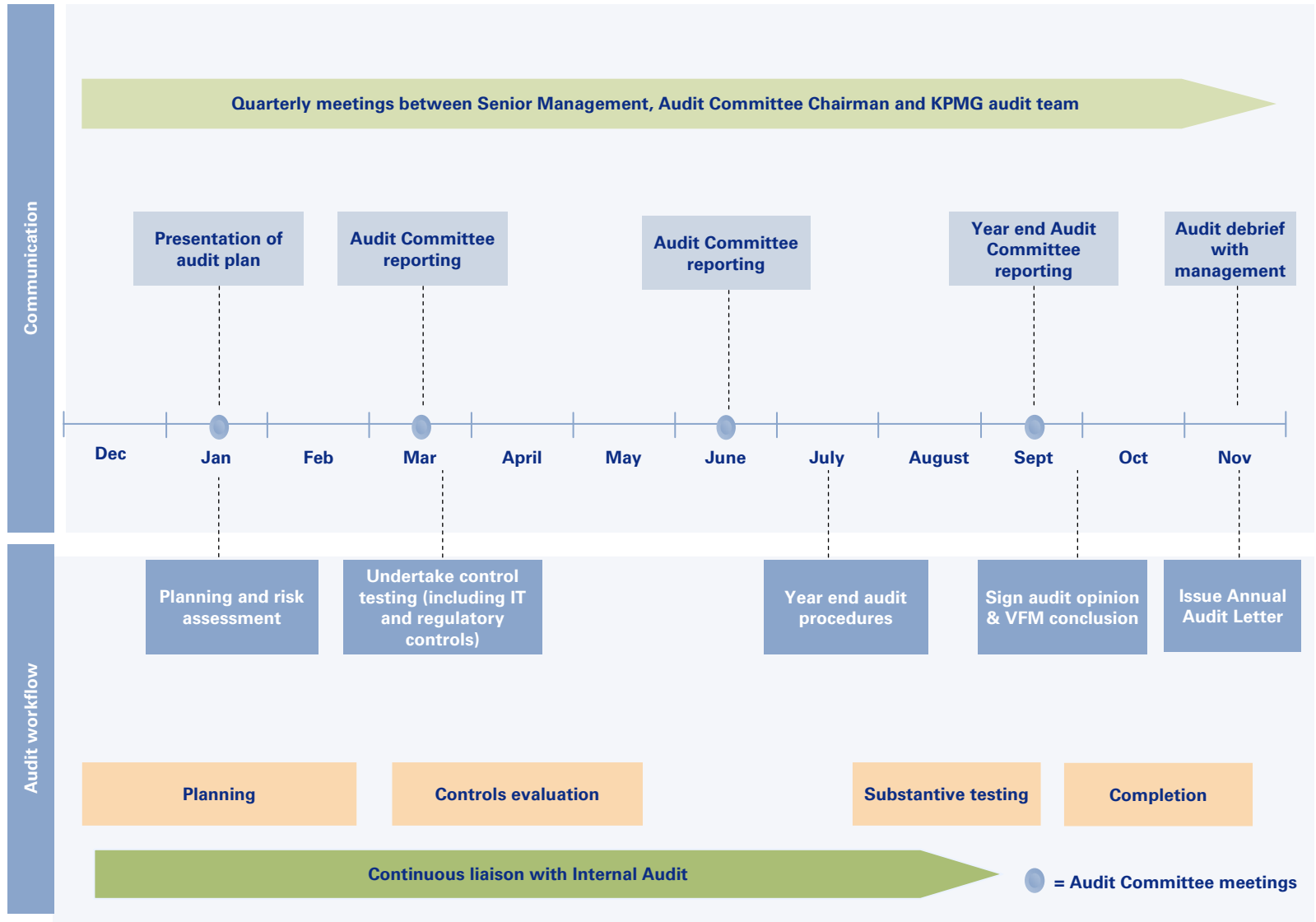
Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach Identify areas of audit focus and planned procedures Confirm plan with Audit Committee 	February 2010
Interim		
Interim report	<ul style="list-style-type: none"> Details and resolution of control and process issues 	June 2010
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Auditor's report on Wiltshire Council's financial statements Auditor's report on Wiltshire Council's value for money Auditor's report on Wiltshire Council's use of resources Detail the resolution of key audit issues Communication of adjusted and unadjusted audit differences Performance improvement recommendations identified during our audit 	September 2010
Opinion on financial statements		September 2010
Annual audit letter		November 2010
Use of Resources		
LGR / BMP report	<ul style="list-style-type: none"> Phase 3 report focussing on benefits realisation and arrangements to track, record and report on expected cost savings 	TBC
SAP data migration report	<ul style="list-style-type: none"> Assurance work over accuracy and completeness of data migration process following transition to SAP 	TBC

Audit Timeline & Deliverables (continued)

Key formal interactions with the Audit Committee are:

- Jan/Feb: Audit plan
- Mar: Interim issues
- Sept: Year end conclusions

We will be in continuous dialogue with you throughout the audit.



Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or Darren Gilbert.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Chris Wilson, Darren Gilbert or Chris Price will attend all Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

- We will ensure that the Chief Financial Officer, Head of Accounts and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

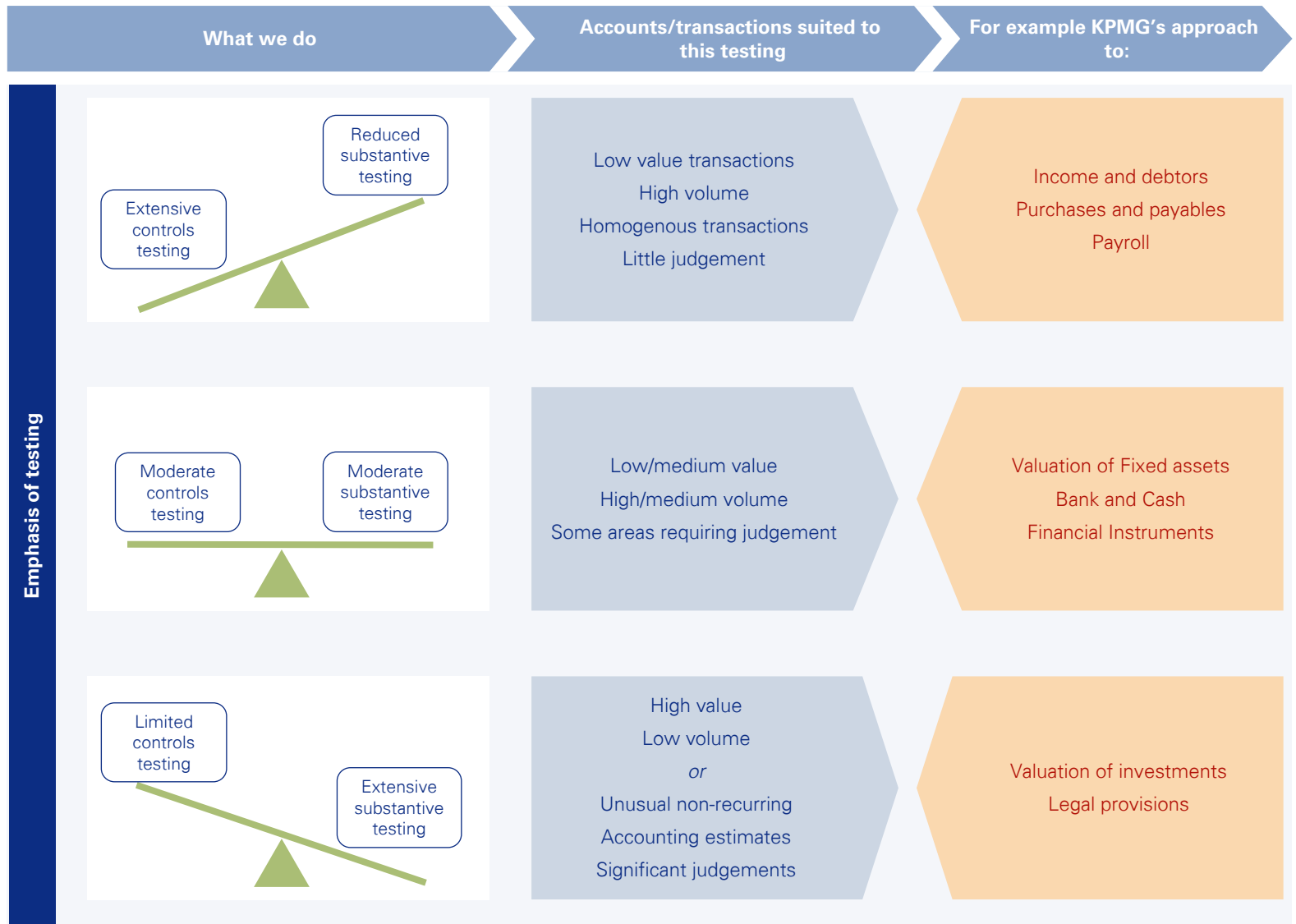
- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing



Note: Assuming controls are found to operate as designed

Appendix 3: Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 4: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

The Audit Commission is committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.