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Mr A Kerr
Chief Executive
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Our ref 515/cw/dg

26 April 2010

Dear Andrew

Annual audit fee 2010/11

I am writing to confirm the audit work and fee for the 2010/11 financial year at Wiltshire Council. Our proposals:

- are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and
- reflect only our audit work, and exclude any inspection and assessment fees which will be charged separately by the Audit Commission. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed of any changes.

Audit fee

The table below summarises the fees for the 2010/11 audit.

Audit area	Planned fee 2010/11	Planned fee 2009/10
Audit fee – Wiltshire Council	435,600	399,750
Less: IFRS reimbursement (see below)	(24,506)	-
Net audit fee – Wiltshire Council	£410,094	£399,750
Audit of Pension Fund	<i>tbc</i>	£70,900

The proposed indicative fee for the audit for 2010/11 is £435,600 (plus VAT). This represents an increase of nine per cent from the planned audit fee of £399,750 for 2009/10, but is still

£157,158 (27%) lower than the planned combined county and district council audit fees in 2008/09 (the outturn for that year was also considerably higher, reflecting the additional work that was necessary for that audit year). The key drivers behind the increase to the fee are explained further below.

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scales of fees 2010/11 and the scale fee for Wiltshire Council is £414,860. The fee proposed for 2010/11 is five per cent above the scale fee (the 2009/10 fee was set at +4%). This reflects the work required to address the audit risks identified later in this letter (see 'use of resources' and 'accounts' sections below).

In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. To avoid any confusion with the annual audit fee, the Audit Commission will refund an amount based on a set proportion of the scale fee to individual bodies. The Council will therefore need to pay the total audit fee as stated above, but will be reimbursed £24,506 directly by the Audit Commission. This means the Council's net audit fee after the IFRS reimbursement is £410,094, representing an effective increase of 2.6 per cent compared to 2009/10.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for the 2009/10 audit. A separate plan for the audit of the financial statements will be issued by December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Chief Finance Officer and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

The pension fund will again be treated as a separate audit engagement with a separate fee. However, the Audit Commission has not yet set the scales of fees for local government pension fund audits in 2010/11. This has been deferred while the Commission undertakes further analysis. We will therefore write separately to set out the 2010/11 pension fund audit fee once the Commission has published the scale of fees for that year.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The above fee excludes any additional work we may agree to undertake at the request of Wiltshire Council. Any such work will be separately discussed and a detailed project specification agreed with you.

I have not included an estimated fee for the certification of grant claims and returns at this stage. I will write to Martin Donovan separately and provide an estimate of the fee when I have a better understanding of the likely scale of this work.

Use of resources audit

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

For the 2010 assessment, the timetable for the completion of UoR work by auditors has been brought forward to enable auditors to complete their assessment on a phased basis with a view to completing the bulk of the work by the end of the financial year to which the assessment relates. This is to reduce the overlap with the final accounts audit and smooth the workload to reduce the burden on audited bodies and auditors during September.

The key lines of enquiry specified for the assessment are set out in the Audit Commission’s on-line use of resources guidance, and are similar to those applied last year. This work on use of resources is taking place during 2010 and will inform our 2009/10 value for money conclusion. However, I have identified specific risks in relation to our value for money conclusion. For each risk, I will consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for project audit work is shown in the table below.

Risk	Planned work
Relationship with external partners	The Council, like all public sector organisations, works increasingly in partnership with other public sector and voluntary sector bodies. It is important that the Council’s relationship and interaction with these organisations is effective, particularly as financial pressures increase and place pressure on organisations’ budgets. We will consider how effectively the Council manages its relationships with external partners, focusing specifically on the Primary Care Trust as a key partner.
Fees and charges	<p>Wiltshire Council raises significant amounts of income through fees and charges, but following local government reorganisation it has inherited different arrangements. The Council does not yet have a consistent strategic framework through which fees and charges are determined, both to inform the level and nature of charges but also to ensure that this is done in a way to support the achievement of corporate aims and objectives.</p> <p>The Council has recognised the need to develop a consistent, corporate framework. However, before doing so there is value in reviewing the variable arrangements in place to help understand what strengths and weaknesses currently exist, to inform future changes. We will therefore undertake a review of the Council’s fees and charges arrangements.</p>

Accounts audit

There are a number of factors that will influence the amount of financial statements audit work required for 2010/11. These include:

- From 2010/11, local authorities and pension funds are required to prepare their accounts in accordance with IFRS. The transition to IFRS will increase auditors' work, particularly in the first year when bodies will need to re-state their previous year's accounts on the new basis, to provide prior year comparatives. The Audit Commission increased the scale fees for local authorities by six per cent to reflect the costs of this additional work, which represents the largest element of the increase to the proposed fee compared to last year's planned fee.
- In addition to the general IFRS changes, we will need to consider the accounting treatment for the Council's housing private finance initiative (PFI) scheme. The scales of fees do not include provision for review of the accounting treatment of PFI schemes. The scope, and therefore the costs, of such reviews will depend upon the nature and complexity of the scheme. We will therefore discuss and agree any necessary additional charges for this work at the appropriate time.
- In 2009 the Council implemented a new SAP system to replace the previous main accounting and other systems in operation at the former county and district councils. A conscious decision was taken to defer replacing other multiple financial systems inherited from the predecessor bodies, such as the council tax, business rates and housing benefits systems, but this is planned for the future. We have assumed that further rationalisation of key financial systems will not occur in time to affect the 2010/11 audit – if this takes place earlier, we will discuss the implications on our audit plan with the Chief Finance Officer. When it does occur, we will need to undertake one-off additional work to obtain assurance that data is accurately and completely migrated from the previous systems. In the meantime, we will continue to undertake controls testing of the multiple systems in operation during 2010/11.
- Finally, our recent experience of auditing the Council's accounts has demonstrated that there are higher risks and some practical issues that require more audit work than we originally anticipated last year. We have therefore reflected this through a small enhancement to the time required on the audit, and therefore the fee. This increase is, however, considerably smaller than the additional costs charged last year, in anticipation of the support we will receive from the Council in delivering necessary audit work.

Audit team

The key members of our audit team for the 2010/11 audit are listed overleaf.

Name	Role	Contact details
Darren Gilbert	Senior Manager	darren.gilbert@kpmg.co.uk 029 2046 89205
Chris Price	Manager	christopher.price@kpmg.co.uk 0117 905 4479
Gemma Broom	Pensions Manager	gemma.broom@kpmg.co.uk 0117 905 4382

Quality of service

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

Chris Wilson
Partner

cc: Carlton Brand (Corporate Director, Resources)
Martin Donovan (Chief Finance Officer)
Sharon Britton (Service Director, Performance)

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement within your 2010/11 financial statements any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors, or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the financial statements audit plan.

Any changes to the plan will be agreed with you. These may be required if:

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

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Financial statements audit plan	December 2010
Interim audit report	June 2011
Report to those charged with governance (ISA260 report)	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Annual audit letter	November 2011
Relationship with external partners	TBC
Review of fees & charges	TBC