PUBLIC SECTOR

Annual Audit Letter 2008/09

Wiltshire County Council

November 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Content

The contacts at KPMG in connection with this report are:

Chris Wilson
Partner
KPMG LLP (UK)

Tel: 0118 964 2269
christopher.wilson@kpmg.co.uk

Darren Gilbert
Senior Manager
KPMG LLP (UK)

Tel: 0292 046 8205
darren.gilbert@kpmg.co.uk

Tara Westcott
Manager
KPMG LLP (UK)

Tel: 0117 905 4358
tara.westcott@kpmg.co.uk

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. 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 Council, 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

Executive summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Wiltshire County Council (the Council). Although this letter is addressed to the Members of the new Wiltshire Council, as the County Council's successor body, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website at www.wiltshire.gov.uk. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is summarised in **Appendix 1**. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in **Appendix 2**.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in **section 2**; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in **section 3**.

Key Messages

The key areas which we draw to your attention to are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council 'performed adequately', scoring level two (out of four) for all three themes, although within each theme there are elements where the Council has 'performed well' (level three). There are, however, specific weaknesses within the managing finances theme regarding financial reporting. Based on this, we concluded that the Council had for the most part made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for financial reporting. Our Value For Money conclusion was qualified on this basis.
- We identified a number of significant issues in the course of auditing the Council's financial statements that are considered to be material. These have now been resolved to our satisfaction and adjustments in the financial statements have been made by the Council. We have issued unqualified audit opinions on the Council's financial statements and Pension Fund accounts and a qualified audit opinion on the Council's arrangements for securing value for money in 2008/09.
- Our specific risk based project work generated generally positive messages regarding the Council's management of the areas reviewed, and also where relevant its comprehensive delivery of agreed actions in response to recommendations from earlier audit reports. We issued two reports at key stages leading up to vesting day for the new Council and in both cases we reported that good progress had been made overall. The Council had delivered the preparations necessary for the vast majority of the key actions that were originally identified in the 'Day one' plan (i.e. the actions that had to be in place in time for the first day of the new Council). There were a small number of actions that could not be cleared by day one and we recognised that clear communication and control of these areas would need to be maintained after 1 April 2009.

There has been a significant amount of work by the Council to capture and validate anticipated year one savings. Significant effort by Council staff has helped to identify the cash savings that had been assumed in the original bid for this stage. In addition, a process is being set up to capture and monitor the "other savings and efficiencies" as set out in the original bid. The new SAP system, BMP, Shared Services and ICT benefits are complex and Wiltshire Council is considering the best way of measuring them.

The SAP, Shared Services and ICT projects plans include actions that will be required in the first few months of Wiltshire Council. There is a need to ensure plans are sufficiently flexible to deal with unexpected events which might emerge and impact on the delivery of services because of the complexity of the LGR programme. This includes contingency plans for loss of support services and appropriate performance management monitoring to detect more subtle problems.

Executive summary (continued)

Fees

Our agreed fees for the Council's audit and auditing the pension scheme were £210,750 and £70,000 respectively. We have charged additional fees for the completion of the Council's accounts audit due to the significant amounts of additional time required to resolve the many difficulties encountered during our final accounts audit. We have also charged additional fees for the significant amount of time spent on considering elector questions and undertaking special audit investigations. The final fee for the Council (excluding grants certification) is therefore £348,680. The Pension Fund fee remains unchanged at £70,000. Detailed of our fees are summarised in **Appendix 3**.

Future Issues

- Those Local Authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst your corporate priorities.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. Wiltshire Council will need to not only meet this challenge, but also continue to deliver changes to its structure and ways of working following local government reorganisation (LGR) earlier this year. Whilst challenging, this transformation agenda does however present opportunities to identify and realise significant efficiency savings. Our 2009/10 audit plan includes an audit project considering how the Council is approaching this, in the context of LGR.
- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contains a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, although as with all local authorities there remains much to be done to identify the full impact of IFRS on its accounting arrangements and to make the necessary changes.
- The Council introduced a new SAP system in the current financial year, replacing the previous general ledgers and other related financial systems for the five predecessor councils. This major project required dedicated IT, finance and other resources to manage the process of implementation and this effort continues to ensure that the system and associated new ways of working are fully and effectively embedded. Our 2009/10 audit includes a significant audit project to consider aspects of the SAP system implementation process.

Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
  - Managing finances **–** focusing on sound and strategic financial management;
  - Governing the business – focusing on strategic commissioning and good governance; and
  - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based predominantly on the UoR assessment but also takes account of other relevant work.
- *Specific risk based work* – we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook a review of the LGR process and the way in which the predecessor councils managed the risks associated with the transition to One Council (our work was performed in two phases).

The findings from this work are summarised below.

<table>
<tr><th>Element of work</th><th>Key findings</th></tr>
<tr><td>Use of Resources</td><td>Our assessment of Wiltshire County Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):
<table>
<tr><th>Area</th><th>Score</th></tr>
<tr><td>Managing money</td><td>2</td></tr>
<tr><td>Governing the business</td><td>2</td></tr>
<tr><td>Managing resources</td><td>2</td></tr>
</table>
These scores build on last year’s UoR assessment when the Council scored level 3 (performing well) against the financial reporting, financial standing, financial management and value for money themes and level 2 against internal control. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.
In achieving level 2 the Council has been able to prove that overall it has adequate arrangements in place. There were elements in each of the three themes which we assessed as level 3 (performing well), recognising that in these areas the Council not only had sound arrangements in place but was also able to demonstrate that these arrangements had led to significant and sustainable outcomes. We assessed the financial reporting element of Managing Money as level 1 (inadequate) due to the significant issues identified during this year’s final accounts audit.</td></tr>
<tr><td>Value for money conclusion</td><td>We issued a qualified value for money conclusion for 2008/09.
This means we have concluded that for the most part you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for financial reporting where our audit identified concerns over the production of the Council’s annual accounts.</td></tr>
</table>

Use of resources (continued)

Element of work	Key findings
Review of LGR (phase 1)	The first phase of our review between September and October 2008 considered how the risks associated with the implementation arrangements for the move to One Council were being managed. We focused particularly on transition planning, finance, governance, information management and technology, and staffing issues. We reported our findings shortly after the review, concluding that overall the Council was managing the transition to One Council well. At this stage there remained a significant amount of work still to be done, including on the implementation of the new SAP system and shared service function, but we were satisfied that the key risks associated with the transition were recognised and being addressed. In particular: • there were clear programme management arrangements in place; • good progress had been made on staffing issues, including appointing the majority of Service Directors; and • the staff we spoke to were very motivated and there was evident "buy in" from the staff at the county and district councils. Due to the speed of the transition process we did not issue any recommendations, but did highlight the importance of closely monitoring progress against critical items and taking prompt action to overcome or work around problem areas as and when they arose.
Review of LGR (phase 2)	The second phase of our work was completed between January and February 2009, allowing us to consider the general preparedness for the transition that took place on 1 April 2009. This stage of our work focused on the progress against the critical elements of the project plan, the approach to developing a benefits realisation plan and arrangements to ensure value for money for the provision of services under the new council structure. We again reported that good progress had been made overall. The Council had delivered the preparations necessary for the vast majority of the key actions that were originally identified in the 'Day one' plan (i.e. the actions that had to be in place in time for the first day of the new Council). There were a small number of actions that could not be cleared by day one and we recognised that clear communication and control of these areas would need to be maintained after 1 April 2009. There has been a significant amount of work by the Council to capture and validate anticipated year one savings. Significant effort by Council staff has helped to identify the cash savings that had been assumed in the original bid for this stage. In addition, a process is being set up to capture and monitor the "other savings and efficiencies" as set out in the original bid. The new SAP system, BMP, Shared Services and ICT benefits are complex and Wiltshire Council is considering the best way of measuring them. The SAP, Shared Services and ICT projects plans include actions that will be required in the first few months of Wiltshire Council. There is a need to ensure plans are sufficiently flexible to deal with unexpected events which might emerge and impact on the delivery of services because of the complexity of the LGR programme. This includes contingency plans for loss of support services and appropriate performance management monitoring to detect more subtle problems. Our 2009/10 audit includes a third phase of this project to consider in more detail the Council's approach to benefits realisation.

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 20 November 2009. This means that we believe the accounts present fairly the financial affairs of the Council and of the income and expenditure recorded during the year. We also issued an unqualified opinion on the Pension Fund accounts.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 30 September 2009 and the key issues are summarised below. However, we were unable to issue our audit opinion by the 30 September deadline because the Council was still updating its financial statements at this time to address the significant number of issues identified during our audit.

Accounts production and adjustments to the accounts

We received a set of draft set of accounts by the 30 June deadline. However we noted early during our audit visit that there were numerous significant and material errors and omissions from this draft set of accounts. There were also many changes required in relation to disclosure items within the notes to the accounts.

The quality of working papers provided by the Council did not meet the expected standard. In some cases it was not evident how the working paper addressed the requirement detailed in the Accounts Audit Protocol and in other cases the level of support was not as detailed as had been requested. However, we worked closely with Finance staff to ensure we obtained the necessary support and evidence for the accounts.

Our audit identified twelve material audit adjustments which have been corrected by the Council. We identified two non-material audit differences which remained uncorrected. We also identified a large number of presentational adjustments which the Council adjusted in its final set of financial statements.

Our audit resulted in eighteen recommendations of which we deemed nine to be fundamental and material to your system of internal control. We also highlighted to you that there remain nine recommendations (from our interim 2008/09 and 2007/08 reports) where action is required by the Council in 2009/10 to adequately address identified issues. We will work closely with the Council's Finance staff to ensure that the accounts closedown process and financial statements audit are smoother and more efficient next year.

Exercise of audit powers

We have a duty under section 8 of the Audit Commission Act 1998 (the 1998 Act) to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1998 Act.

We did not exercise these powers or issue a report in the public interest in 2008/09. We have, however, undertaken an unprecedented amount of additional audit work during the year in response to issues and risks raised with us from various sources, including:

- a request from a local elector that we exercise statutory powers by issuing an Advisory Notice under section 19A of the 1998 Act in relation to a proposed transfer of fixed assets following Local Government Reorganisation (we considered this request but concluded there was no cause to issue an Advisory Notice);
- a whistle-blowing complaint under the Public Interest Disclosure Act 1998 (our investigation identified specific risks relating to fixed assets which we have considered during our final accounts audit, and which we commented in detail on our accounts audit report to the Audit Committee in September 2009);
- a detailed investigation, at the request of the new Wiltshire Council, into specific payments highlighted by the new Wiltshire Council, but made by one of the former District Councils, to consider the probity and appropriateness of these payments (we concluded that there were lessons to be learned in how these payments were effected but there was no direct evidence of impropriety);
- a review, at the request of the new Wiltshire Council, of the severance payments made by the County Council and District Councils as a result of the Local Government Reorganisation (we found that the payments were all made in line with the agreed severance policy but a number of errors in individual payments were identified, along with some lessons about how the detailed calculations were made and documented); and
- consideration of a number of other specific questions and issues received from local electors.

Future issues

There are some key areas and developments which the Council will need to manage effectively in order to produce timely, complete and materially accurate financial statements:

- The Council needs to ensure that it has appropriate close down procedures in the place for the preparation of the 2009/10 financial statements. This includes ensuring that the right level of staff are involved in the closing down of financial systems and management should thoroughly review the accounts to ensure the figures are consistent with those per the accounting system. This should also include completion (and documentation) of the disclosure checklist, casting of all primary statements and notes and checking cross-references and internal consistency throughout.
- The Council has introduced a new SAP system in the current financial year, replacing its current general ledger and other related financial systems. This is a major project and the Council has dedicated significant IT, finance and other resources to manage the process of implementation. Our 2009/10 audit includes a significant audit project to consider aspects of the SAP system implementation, including ensuring we obtain sufficient assurance over the completeness and accuracy of the opening balances and other key data transferred into the new system.
- From 2010/11 local government bodies are required to prepare their financial statements under IFRS. There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of aspects of the Council's accounts to comply with IFRS. The Council will need to prepare for this transition and ensure that its financial systems and other arrangements have been reviewed and updated as necessary, and that finance staff receive necessary training.

Appendix 1: Key recommendations

This appendix summarises the main high priority recommendations that we have identified during 2008/09, along with your response to them.

Issue / Recommendation	Management Response / Timescale for implementation
Accounts audit	
Material errors in 1st draft of the Statement of Accounts **Issue** The draft accounts submitted to and approved by the Audit Committee contained material errors. This was due to the problems with the spreadsheets being used to generate the figures in the Statement of Accounts. As a result, in the "approved accounts", gross expenditure in the I&E was understated by £45.0m and gross income was understated by £12.8m, and showed a surplus of £15.5m whereas the latest corrected version shows a deficit of £21.5m. The quantum of these errors would have made it difficult for the Audit Committee to make valid conclusions regarding the Council's performance in 2008/09. **Recommendation** Prior to submitting the draft accounts to Audit Committee, management should thoroughly review the accounts to ensure the figures are consistent with those per the accounting system. This should also include completion (and documentation) of the SORP checklist, casting of all primary statements and notes and checking cross-references / internal consistency throughout. This would help eliminate the number of errors and disclosure issues identified as part of our audit work.	The preparation of the 2008-09 Statement of Accounts for the former County Council was undertaken by the former County Council Chief Finance Officer. Review of the process shows it was inadequately resourced and planned. In hindsight with the great level of change in progress in terms of the new Unitary Council, it would seem a sensible approach for the County Council to have requested the 1 month extension to the preparation of accounts and offered in the relevant regulation. However lessons will be learned and a properly resourced plan will be prepared for the preparation of the accounts 2009-10. **Officer and due date** Matthew Tiller, Deputy Head of SST Finance January 2010 A thorough review of the accounts has been actioned, including a review of the SORP checklist. The outcome of this review will clearly determine the new Chief Finance Officer's ability to sign off the County Council's Statement of Accounts for 2008-09. Completion of the review will depend upon full completion of the Statement of Accounts. **Officer and due date** Stuart Donnelly - Principal Accountant 30 September 2009
Fixed assets sold which were not on the Fixed Asset Register **Issue** £1.3m of fixed assets have been sold during the year. However, Corporate Finance were unable to identity these easily on the Fixed Asset Register (FAR). There may be further fixed assets, potentially of a significant value, which the council owns but are not recorded appropriately in the FAR. **Recommendation** Ensure that a thorough review of the Fixed Asset Register is performed.	The outcome of the review will enable the existing asset registers to be reconciled and once agreed, used to populate the asset module in SAP. Procedures will be put in place to ensure improvements can be easily attributed to the original asset. However, this is a major undertaking to ensure the Asset register is correct. **Officer and due date** Matthew Tiller 31December 2009

Appendix 1: Key recommendations (continued)

Issue / Recommendation	Management Response / Timescale for implementation
£7.3m error within revaluation gains in prior year **Issue** In the prior year an asset was revalued upwards by £7.3m, based on the valuation provided by the external valuer. This valuation related to two assets - the original School buildings and a separate asset for improvements to the buildings made in subsequent years. The revaluation was performed based on the overall combined asset. However, when the revaluation was processed the revaluation gain of £7.3m was made against just the original School buildings asset. This failed to take into account the fact that the value of the other improvements to assets were included in the initial valuation. This resulted in an incorrect revaluation gain of £7.3m being booked. Aside from the £7.3m error which was not identified until 2008/09, there is the potential for further such issues to arise due to the complexities of the fixed asset register and the lack of detailed descriptions relating to each asset. This causes difficulties in processing additions/improvements to existing assets within the fixed asset register. **Recommendation** Review the processes for adding assets to the fixed asset register to ensure all improvements can be easily attributed to the original asset. Additionally where a particularly significant gain is noted on an individual asset in the year this should be reviewed to ensure that it does not actually relate to several assets.	The necessary accounts corrections have been made. In August 2009, an independent review of the Council's assets and capital accounting arrangements was commissioned. The outcome of the review will enable the existing asset registers to be reconciled and once agreed, used to populate the asset module in SAP. Procedures will be put in place to ensure improvements can be easily attributed to the original asset. However, this is a major undertaking to ensure the Asset register is correct. **Officer and due date** Matthew Tiller 31 December 2009
Items revalued during the year not identifiable on the FAR **Issue** During our review of the valuation report for 2008/09 a number of assets have been revalued which Corporate Finance were not able to identify on the fixed asset register. The value of these assets per the valuation report originally totalled £3.9m. Following further analysis, some of these have now been resolved resulting in a £793k audit adjustment. There is potential that fixed assets are understated. However, it is also possible that the assets could be on the fixed asset register already but are not clearly identifiable. **Recommendation** In order for the Council to be sure of the assets it holds, the Fixed Asset Register should be fully reviewed and each asset description should be much more detailed and a 'collection' of assets such as school buildings should be named or numbered similarly.	The outcome of the review will enable the existing asset registers to be reconciled and once agreed, used to populate the asset module in SAP. Procedures will be put in place to ensure improvements can be easily attributed to the original asset. However, this is a major undertaking to ensure the Asset register is correct. **Officer and due date** Matthew Tiller 31 December 2009

Appendix 1: Key recommendations (continued)

Issue / Recommendation	Management Response / Timescale for implementation
Separate Fixed Asset Registers are being maintained by Corporate Finance and Estates departments **Issue** The estates team maintain a separate fixed asset register to that maintained by Corporate Finance. Corporate Finance's register is used for the Statement of Accounts, but the Estates' version is used for selecting assets for valuation. This appears to have resulted in assets which are on one system but not on the other. It also has resulted in difficulties in allocating capital improvements to existing assets in the finance maintained FAR. **Recommendation** The two systems should be reconciled on a regular basis, or ideally only one fixed asset system should be maintained within SAP.	The outcome of the review will enable the existing asset registers to be reconciled and once agreed, used to populate the asset module in SAP. Procedures will be put in place to ensure improvements can be easily attributed to the original asset. However, this is a major undertaking to ensure the Asset register is correct. **Officer and due date** Martin Donovan - Chief Finance Officer 31December 2009
Procedures for arranging Impairment review **Issue** The Estates team are currently responsible for organising the impairment review, rather than Corporate Finance. As Estates maintain a separate Fixed Asset Register the value of an asset, per Estates, may not reflect the valuation per Corporate Finance. Therefore a situation could arise where Estates do not believe an impairment is required as their value is in line with the external valuer, but the FAR of corporate finance may need an impairment (or revaluation gain) should they hold the asset at a different value. Additionally, the original impairment review did not cover investment properties and assets held for sale. We would have expected both of these categories of asset to form part of the review. **Recommendation** The two departments should work closely together in order to identify all the types of assets that should be subject to the impairment review.	All existing fixed assets will be agreed and loaded into SAP on a single register. Finance will issue clear guidance regarding the impairment requirements for different asset types. **Officer and due date** Matthew Tiller 31 March 2010
Timing of Fixed Asset processes **Issue** The processes for making fixed asset additions to the fixed asset register, processing depreciation charges, processing disposals, and calculating revaluations are all performed at year end. This causes staffing pressure at year end and also results in a lack of segregation of duties in performing the processes. **Recommendation** Undertake the processes for fixed assets as monthly or quarterly routines. There should also be a thorough and regular review by a more senior person within the Finance function to ensure the processes are being performed and documented appropriately.	All existing fixed asset registers will be reconciled, agreed and populated into SAP as one register. Regular reviews of fixed assets will be implemented with clear documentation to support any changes. **Officer and due date** Matthew Tiller 31 March 2010

Appendix 1: Key recommendations (continued)

Issue / Recommendation	Management Response / Timescale for implementation
Financial regulations in place to assist staff in identifying expenditure as capital or revenue **Issue** There is a need to enhance the guidance available to staff regarding differentiating between capital or revenue expenditure for spend on capital projects. Given that there is sometimes difficulty in differentiating between what constitutes maintenance and what is an enhancement or increasing the life of an asset, it is possible that errors could arise due to lack of internal clarity. Such guidance should specifically identify, based on the SORP, what restriction are in place over capital expenditure, such as the prohibiting of capitalisation of costs on abortive capital schemes. **Recommendation** Ensure that a financial regulations manual is in place which can be used as a policy guide for determining whether expenditure is either capital or revenue. Additionally, ensure that sufficient training is provided to all relevant employees to assist them in correctly identifying the different types of expenditure. Controls should also be implemented to ensure that management independently and regularly review postings made to ensure the spend is being assigned appropriately.	A financial regulations manual will be prepared with clear guidelines regarding capital and revenue. This will be supported by a training programme, delivered to all relevant staff. The regular monitoring processes will be introduced, once capital projects can be updated into SAP. **Officer and due date** Iain Winterbottom 31 December 2009
Incorrect capitalisation of items as intangibles assets **Issue** From our testing of intangible asset additions in 2008/09 we have identified a number of assets that have been capitalised as intangible assets which do not meet the criteria under the SORP. Although these items were not material, they clearly were not capital expenditure and were also not items that could be classed as intangibles. If a significant number of low value items are classified as intangibles that do not meet the criteria for capitalisation there is the potential for expenditure and intangibles assets to be misstated. **Recommendation** Controls should be implemented to ensure that expenditure on intangible assets is being monitored to ensure it meets the criteria for capitalisation under the SORP.	In August 2009, a review of the Council's assets and capital accounting arrangements was commissioned. In light of the outcome of the review, necessary controls will be prepared and incorporated into mandatory guidance as part of the Council's Financial Regulation Framework. **Officer and due date** Matthew Tiller 16 October 2009

Appendix 1: Key recommendations (continued)

Issue/ Recommendation	Management Response / Timescale for implementation
Review of severance payments	
Review the redundancy calculations containing errors to consider whether additional payments should be made where underpayments have been identified, including complete application of the 0.3% salary uplift.	Agreed, WC will review payments made to former staff. **Officer and due date** Ian Gibbons and Martin Donovan 1 December 2009
Review and update proposed redundancy awards for staff where overpayments have been identified and consider whether recovery action should be taken for staff who have already received incorrect redundancy payments.	Management have reviewed proposed redundancy awards prior to their payment and where necessary corrected them. Management intend to recover overpayments where this is legally and economically justified. **Officer and due date** Ian Gibbons and Martin Donovan 1 December 2009
Produce detailed guidance to provide a step by step approach to the key elements of calculating redundancy payments, including basic details such as the what items are allowable to include in ‘normal weekly pay’. The Council may need to obtain legal advice to inform this.	Agreed **Officer and due date** Barry Pirie 1 December 2009
Review of non-pensionable honoraria payments	
There should be a clear policy defining the circumstances in which non pensionable honoraria can be made (i.e. When).	These are all high priority recommendations made by KPMG which we have advised the Council to consider.
There should be a clear policy which stipulates the processes for initiating, approving and authorising such payments (i.e. How).	
The process and criteria for identifying and selecting recipients of non pensionable honoraria should be objective and clear (i.e. Who).	
The decision making process at each step should be documented in the interests of transparency and in order to provide evidence to support the validity of such payments under reasonable scrutiny (i.e. Documentation).	
Engagement should be sought from an appropriately constituted forum to approve and authorise the decisions that are taken to make such payments (i.e. Approval).	
Clear evidence should be available to prove that no individual was involved in the decision making process or authorisation of a payment to that individual (i.e. Evidence).	
Checks and controls should be introduced to ensure that individuals who are to be rewarded by means of non pensionable honoraria (or any other means) are not already being or have not already been rewarded for the same matter by other means.	

Appendix 2: Audit reports issued

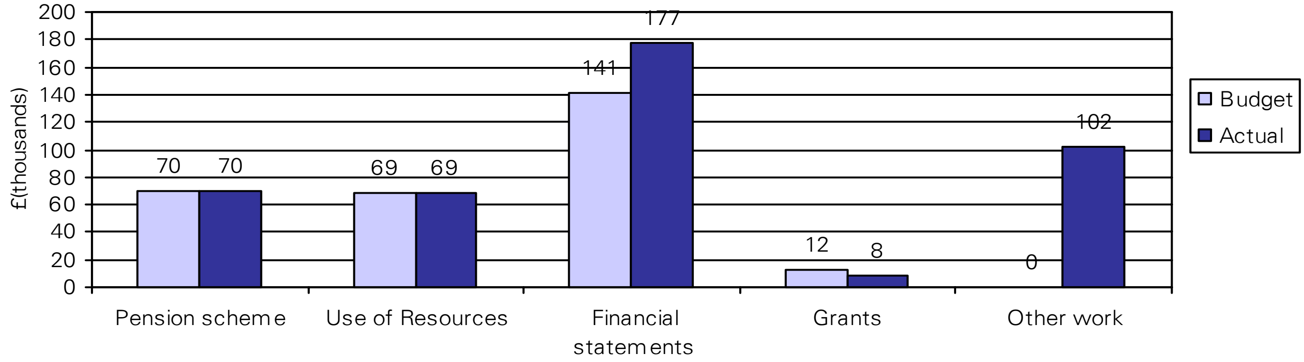
A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Review of Local Government Reorganisation (phase 1)	December 2008
Review of Local Government Reorganisation (phase 2)	February 2009
Interim Audit Report 2008/09	April 2009
Wiltshire Pension Fund – Report to those charged with Governance – 2008/09	September 2009
Wiltshire County Council – Report to those charged with governance – 2008/09	September 2009
Review of Non Pensionable Honorarium payments to certain members of staff at one of the former district councils between 1 January and 1 April 2009	November 2009
Review of Severance payments	November 2009

Appendix 3: Audit fees

We have summarised below the outturn against the 2008/09 agreed external audit fee:

External audit fee for 2008/09



Financial statements

The agreed fee in our audit plan for audit of the Financial Statements was £141,000. However, in addition to this, we have charged additional fees. This is due to the significant amounts of time we have incurred resolving the many difficulties encountered during our final accounts audit and completion of the statement of accounts. The additional fees charged amount to £35,970.

Grants

We also performed some grants work for the district councils, which does not form part of the fee quoted above. Our total estimate to management was £92k. Actual costs amount to £86k. We do still however, have three small grants waiting to be audited.

Other work

We have undertaken an unprecedented amount of additional audit work during the year in response to issues and risks raised with us from various sources which is set out in **section three** of our report.