

Isle of Wight Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



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Audit Committee
Isle of Wight Council
County Hall
Newport
Isle of Wight
PO30 1UD

12 September 2014

Dear Members

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to Isle of Wight Council's (the Authority's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Audit Committee scheduled for 25 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Audit Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting scheduled on 25 September 2014.

Yours faithfully
For and on behalf of Ernst & Young LLP

Kate Handy
Audit Director
Ernst & Young LLP
United Kingdom
Enc.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

We also report to the National Audit Office (NAO) under its group instructions.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Significant risks:

Localisation of business rates: Audit findings and conclusions

- ▶ The Council's accounting for the new business rate framework, and its disclosures, are in accordance with the CIPFA Code of Accounting Practice.
- ▶ We have assessed the reasonableness of the Council's method to estimate its appeals provision, and have not judged it to be an unreasonable estimation method

Highways PFI: Audit findings and conclusions

- ▶ We have reviewed the Council's Highways PFI accounting model, identifying some amendments to ensure compliance with the Code of Accounting Practice requirements, and consistency with the operator's model.
- ▶ The Council have made the adjustments to the PFI model, and also amended the significant resulting impacts on the financial statement disclosures for the Highways PFI.

Risk of Management Override: Audit findings and conclusions

- ▶ Our work has not identified indications of management override.
-

Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

Current year observations

- ▶ Errors in payment processing procedures resulted in the Council making a payment of £0.5m to a contractor that was in administration.

Challenges for the coming years

- ▶ DCLG has consulted on bringing forward the timescale to complete the financial statements. This may present a significant challenge to the capacity of the Council.
-

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

-
- ▶ There are no uncorrected misstatements.
 - ▶ Management have made some amendments to the disclosure notes to the accounts.
-

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

Whole of Government accounts

We have yet to complete the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. At this time we have no issues to report.

Audit certificate

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 April 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Our main findings in relation to the areas of significant risk are set out below.

Localisation of Business Rates

Description	Findings & conclusion.
<p>There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting arrangements are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA code of practice; and ▶ review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<ul style="list-style-type: none"> ▶ The Council's accounting for the new business rates conforms to the guidance set out in CIPFA's Code of Practice. ▶ We judged the methodology used by the Council to establish its estimate to be reasonable and appropriate. ▶ Benchmarking techniques including comparison to other unitary authorities and authorities with total rateable values of similar size does not identify the Council as a significant outlier, providing a further source of assurance for the estimate. ▶ The level of estimation uncertainty is adequately disclosed in the required disclosures to the financial statements.

Highways PFI

Description	Findings & conclusion.
<p>The Council's Highways PFI commenced operations on the 1 April 2014. Initial disclosures were made in the 2012/13 financial statements, but the 2013/14 statements now need to include the full accounting requirements to comply with the CIPFA Code.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ evaluate the process undertaken to establish the Council's accounting model for the Highways PFI, including any key judgements and any implemented controls; ▶ review the accounting model, including how it complies with the CIPFA Code; and ▶ test the model back to prime documents where relevant, including the PFI contract agreement, and unitary payments. 	<ul style="list-style-type: none"> ▶ Our procedures identified that in our judgement the Council's initial financial model was not fully consistent with the accounting requirements. We discussed the findings with management, who amended the financial model. ▶ We identified some inconsistencies with the operator financial model that we again discussed with management. For example, inconsistencies between the timing of scheduled payments, and judgements whether items should be capitalised. The Council amended some elements, and provided appropriate explanations for its judgements. ▶ Following amendments to the model, there were consequential adjustments to the financial statements. For the Comprehensive Income & Expenditure Statement these were not material, and predominantly reclassification of expenditure only. ▶ Amendments to the PFI disclosure notes for the scheme obligations were numerically more significant, but again were in the nature of reclassification between the headings of interest, service charges and contingent rentals.

Risk of Management Override

Description and conclusion	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting	▶ No indications of management override have been identified from our work.

records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We planned to:

- ▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Review accounting estimates for evidence of management bias; and
- ▶ Evaluate the business rationale for any significant unusual transactions.

Other issues:

Auditing standards require the communication of other issues that may come to the auditor's attention. We provide our observations in the table below.

Policy/practice/finding	EY comments
<p>The Annual Governance Statement (AGS) contains disclosure of the significant risks facing the Council. These were:</p> <ul style="list-style-type: none"> ▶ An inconsistent approach to project governance; ▶ Conducting Council business, and productivity cost for a high number of meetings; and ▶ Developing clinical governance arrangements, following the transfer of local public health teams to local authorities. <p>However, it does not meet the Local Authority Code of Accounting Practice requirement to set out the action plan and timescales to address the issues.</p>	<p>The lack of a clear action plan does not give the Audit Committee or other stakeholders assurance that there are actions in place to address the significant governance issues identified in the AGS, and also prevents effective monitoring of their remedy by the Committee in line with its overall terms of reference.</p>
<p>The Council's financial statements contain a number of disclosures that could be considered to be immaterial.</p>	<p>The Code of Local Authority Accounting provides the ability for the Council to remove non-statutory disclosures that are not material. CIPFA have also produced the publication <i>Financial Statements; A Good Practice Guide for Local Authorities</i> which sets out good practices that the Council may be able to implement to reduce the length of its financial statements.</p>

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Isle of Wight Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus presented to you in our Audit Plan,

Areas of focus:	Impacts arrangements for securing:	Key findings:
Financial Pressures		
<p>The Council is facing financial pressures estimated at approximately £28m over the period 2014/15 to 2016/17. It reports it needs to fill this gap, through a combination of efficiency savings, income generations activities, and potentially service changes or reductions.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>The financial position of the Council is challenging, but it continues to have arrangements in place to secure financial resilience.</p> <p>Identifying 2013/14 budget pressures early in the year, compensating action such as additional spending controls and early implementation of further savings plans have meant the Council underspent its 2013/14 budget by £0.9m at the end of the year. £9.7m savings were reported as being achieved, in excess of the planned £8.8m.</p> <p>The forecast medium term financial position is that a cumulative £28m savings are required up to the 2016/17 financial year. This is a significant pressure that is to be managed over the whole period. Outline plans have been put in place for the sources of savings, but the phasing is such that annual budgets require support from reserves and balances in 2014/15 and to a lesser extent in 2015/16. This timescale is consistent with the Council's transition programme, as it develops its new organisational structure and implementation over the same period, for the outcome of a smaller and commissioning focused organisation.</p> <p>The scale of the changes, including reductions in staffing, present a risk to officer capacity and the ability to deliver. The Council is engaging external facilitation to assist, such as through the LGA following on from their Corporate Peer Review.</p> <p>Within the medium term plan, there is still adequate focus on delivering the annual budgets. Savings schemes and other changes are now being brought to the Executive and Full Council, for approval or consultations as appropriate, to maximise their financial effect. Target Groups, working to the Service & Budget Steering Group, have also been instigated to identify what should be achieved within allocated resource limits, rather than looking at what is done now and has to be cut. As a change in emphasis, this may assist looking more clearly at prioritising resources to corporate plan outcomes, rather than a mindset of defending current budgets against cuts and change.</p> <p>Based on the track record of achieving budgets, identifying and delivery savings, our judgement is that the Council continues to have the arrangements in place to deliver financial resilience. However, the scale of the challenge is such that there is little if any head-room. Significant decisions need to be taken, and there is limited, if any, time to defer them.</p> <p>As such we expect to closely monitor the position in our 2014/15 audit.</p>

Response to prior year 'except for' VFM conclusion

<p>In 2012/13 we gave an 'except for' VFM conclusion related to our judgement of weaknesses in managing risk and data quality. These stemmed from the assessments made by Ofsted of the Council's children's safeguarding and schools improvement services.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p> <p>Proper Arrangements</p>	<ul style="list-style-type: none"> ▶ There is evidence that the Council has acted on the prior year findings that improvement was required to risk and performance management. ▶ Corporate arrangements have been refreshed for both, including developing the quarterly corporate performance report and the assessment of strategic risks. ▶ The new Corporate Plan implemented from March 2014 has updated the priorities of the Council. It sets out the envisaged outcomes, milestones, and key actions to be taken in their delivery. However, in the supporting performance measures there is still scope for improvement in ensuring that these do provide a measure of the intended outcome. There are still a number of measures included in the corporate plan that do not appear to have the strategic focus and are operational management indicators. This is especially identifiable in Priority 5 – Working in partnership to improve outcomes. ▶ Improving this outcome focus is a key part of the transformation programme, and an inherent part of developing a commissioning-focused organisation. ▶ There are some good examples of improvements within the services, for example the Children's services department planning and performance framework summary. ▶ The Audit Committee have provided input into challenging the arrangements, including at service levels. Actions to provide them with information have identified the need to ensure that service risks are regularly reviewed and updated at the service boards. ▶ In our review we have also noted the risk management strategy is outside of its review date, and the risk management guide requires updating as it refers to other documents now out of date or superseded. This should be addressed by officers.
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5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

Description	Impact
<p>The Council made a payment of £0.5m to Pihl UK Ltd. This was a significant control weakness as the company was in administration at the time of the payment. A cancellation notice had been raised for payments to Pihl UK Ltd, but was not accurately completed due to human error. Lack of secondary review meant the error was not identified.</p> <p>Since identified, the Council has reviewed this payment process.</p>	<p>The payment is now linked to the legal processes and claims associated with the administration of Pihl UK Ltd.</p>

5.2 Status of previous year's recommendations

There were no reported issues or recommendations made in our 2012/13 audit.

5.3 Challenges for the coming year

Description	Impact
<p>DCLG has consulted on bringing forward the date of preparation of the financial statements.</p>	<p>If agreed, earlier production of the statements may be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent processes may need changing to reduce the production time.</p>

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Completion of substantive testing on: <ul style="list-style-type: none"> ▶ Leases ▶ Property, Plant and Equipment. 	▶ EY to complete substantive testing	EY
Whole of Government Accounts	▶ Review consistency to the final financial statements	EY
Letter of representation	▶ To be discussed at audit committee on 25 September 2014.	Management and Audit Committee
Financial statements	<ul style="list-style-type: none"> ▶ Incorporation of EY review comments on disclosure notes and finalisation by management ▶ Approval of accounts by Audit Committee ▶ Accounts re-certified by RFO 	Management, Audit Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections

We have received no objections to the 2013/14 accounts from members of the public.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
Total Audit Fee – Code work	166,320	166,320	166,320	
Harbours – Agreed upon Procedures ¹	2,511	2,511		Scale fee adjustment requires confirmation with the Audit Commission.
Certification of claims and returns ²	19,614	19,614	19,614	

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

Notes:

¹ Our work on the annual report and accounts for the Harbours is yet to be completed.

² Our fee for certification of grants and claims is yet to be finalised for 2013/14. We plan to report this to those charged with governance in February 2015 within our Annual Certification Report for 2013/14.

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

There were no uncorrected misstatements that we are required to bring to your attention.

During the course of our audit we identified few issues that required correcting by management. Those identified all related to the disclosure notes to the statements. The only amendment of quantitative significance was to the Highways PFI disclosure, to amend the classification of the outstanding obligation between headings of interest, service charges, and adding the heading of contingent rentals.

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 15 April 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2014.

Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the audit committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Enquiries made of the Committee chairman, and response received dated 31 March 2014. No issues to report.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	No issues to report.
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	No issues to report.

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	<p>No issues to report. Enquiries made of the Committee chairman, and response received dated 31 March 2014.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and update in section 8 of this report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>No issues to report.</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Results Report</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	<p>Audit Plan and Audit results report</p>

Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Kate Handy
Audit Director
Ernst & Young
Wessex House
Threefield Land
Southampton
SO14 3QB

This representation letter is provided in connection with your audit of the financial statements of Isle of Wight Council ("the Council") for the year ended 31 March 2014. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Isle of Wight Council as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA

LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related

parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 48 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme

liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours Faithfully,

Head of Financial Management

I confirm that this letter has been discussed and agreed at the Audit Committee on 25 September 2014

Chairman of Audit Committee

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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