

Isle of Wight Council

Audit results report for the year ended 31 March 2015

September 2015

Ernst & Young LLP



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

18 September 2015

Dear Committee Members

Audit results report

We are pleased to attach our audit results report for 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 2015. We will issue our final conclusion at/after the Audit Committee scheduled for 29 September 2015.

The audit is designed to express an opinion on the 2014/15 financial statements, to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Authority's accounting policies and judgments, and any 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.

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit Committee meeting.

Yours faithfully

Kate Handy

For and on behalf of Ernst & Young LLP
United Kingdom
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#). This document 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 Audit 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. Executive Summary

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In this statement the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.

The Authority is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Authority's accounting policies and judgements.

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

Financial statements

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.

Our main audit findings are set out below.

Significant risks:

Firefighter Pension fund ill-health benefits.

- ▶ We identified a significant risk in this area due to management identifying an error where firefighter ill-health benefits had been incorrectly charged to the firefighter pension fund. They should have been charged to the general fund.
- ▶ We evaluated the arrangements put in place by the Council to establish the completeness and accuracy of the error, and concluded them to be appropriate.
- ▶ We agreed with the Council's key accounting judgements that this should be presented as a prior year adjustment within the firefighter Pension Fund account, and that a provision is required.

Risk of management override of internal controls

- ▶ We identify this risk on all audits we undertake as management is in a unique position to override controls. Our testing has found no evidence of management override in the work

Significant risks:

completed to date.

Control themes and observations

We have no control themes to bring to your attention.

Summary of audit differences

Our audit identified a small number of misstatements in the accounts presented for audit, which management have agreed to correct. We do not judge any of these individually require highlighting for your attention.

Economy, efficiency and effectiveness

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified value for money conclusion.

Our main findings are summarised below.

Significant risks:

Financial Pressures

We reviewed the Council's arrangements to:

- ▶ Prepare and manage its 2015/16 budget;
- ▶ Implement its transformation programme; and
- ▶ Manage its identified risk to officer capacity.

In each of the individual areas we assessed that corporate arrangements were in place.

Therefore, at this point in time we continue to assess that the Council has arrangements in place to maintain its financial resilience, and therefore, we judge an unqualified conclusion to be appropriate.

However, we take this opportunity to highlight that the scale of the challenge remains significant to the Council.

The Council is projecting, within a reasonable threshold, achievement of its 2015/16 budget based on an updated savings plans presented to Full Council in September 2015. But some pressures are being pushed backwards and managed through non-recurrent sources. It is reasonable to look at all sources, but the focus should be on sustainable efficiencies in service delivery.

Future pressures may still come to light that further impact the Council's finances, for example from the ongoing central government reviews of funding. This could increase the gap as the Council progresses its 2016/17 budget setting, and rolls forward its medium term forecasts.

Although reassessed downwards, there are significant amounts of savings associated with the new operating model and transformation agenda. While these savings have been reduced there is still a need to continue to identify the specifics underpinning these estimates and how they will be achieved.

Overall, the position is very challenging. It is clear that some difficult decisions are yet to come.

We expect to continue to review the Council's arrangements for financial resilience in our

Significant risks:

2015/16 audit.

Whole of Government Accounts

We are still to complete the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We have no issues to report at this stage of our work.

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 2014/15 audit work has been undertaken in accordance with the Audit Plan issued on 27 April 2015, 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. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

We carried out our work in accordance with our Audit Plan and there were no changes to the audit scope.

3. Significant findings from the financial statement audit

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

Firefighter Pension fund ill-health benefits

Description	Findings and conclusions
<p>Management review during the year identified that there had been errors in charging ill-health benefits for retained firefighters to the firefighter pension fund. These should have been charged to the Council's general fund.</p> <p>We expected management to make a prior period adjustment to the firefighter pension fund, and to consider whether an equivalent amount funded in previous year's by the top-up grant may need to be repaid to central government.</p>	<p>We assessed management's procedures to review the firefighter pension fund payments and quantify the value of incorrectly charged ill-health benefits. Management had reviewed the population of firefighter pension payments identifying 11 instances of payments charged to the incorrect fund.</p> <p>We assessed the process they had gone through to identify these payments as appropriate.</p> <p>We undertook a substantive test of a sample of pension benefits paid to firefighters that management had not identified in their list of errors. We reviewed the pension administration records for those firefighters, and confirmed no errors in this sample. This gave us assurance over the completeness and accuracy of management's process.</p> <p>As expected, management presented the error as a prior year amendment to the firefighter pension fund account. We agreed with this presentation, and the calculation of the error. We also agreed that it was reasonable to assume that the DCLG are likely to request repayment of the overpayment where this had been funded by the top-up grant, and that a provision should be made for repayment.</p>

Risk of management override of controls

Description	Findings and conclusions
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewed accounting estimates for evidence of management bias; and • evaluated the business rationale for any significant unusual transactions. 	<p>At the point of drafting this report we have not found any indications of management override.</p> <p>Our work on journals remains in progress, but those tested to date have been supported by appropriate evidence.</p> <p>We have reviewed the material accounting estimates, including the business rates provision, property, plant and equipment valuations, and pension liability. We have no issues to report.</p> <p>We have not identified any transactions we would consider to be outside of the Council's normal course of business.</p>

Other issues

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to report on other items by exception. We provide our observations in the table below.

Policy/practice/finding	EY comments
The Annual Governance Statement (AGS) contains disclosure of the significant risks facing the Council. The initial draft did not meet the Local Authority Code of Accounting Practice requirement to set out the action plan and timescales to address the issues.	A lack of an 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. Management have committed to including an action plan in the final version of the AGS.

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 proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria 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 operating 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 or improving efficiency and productivity.

The table below presents the findings of our work in response to the risk area in our Audit Plan.

Significant risks:

Financial Pressures:

At the time of our planning we identified that:

- ▶ the Council's medium term forecast looked forward to 2016/17 with a total savings requirement estimated to be £23m. It was also projecting an overspend against its budget, and underachievement of its savings plans.
- ▶ The Council had a significant savings programme of £14.5m in 2015/16, which is an increase of £8.5m compared to the prior year. A significant proportion of the savings are associated with the organisational change programme, and moves to become a smaller commissioning focused council.
- ▶ With the reduction in the size of the Council, but increasing financial challenge, there is a risk that officer capacity may become too stretched.

In undertaking our work to address the identified risk, we:

- ▶ Reviewed and assessed the assumptions within the Council's 2015/16 budget and medium term forecast;
- ▶ Assessed the arrangements for the organisational change programme, which underpin the Council's identified savings; and
- ▶ Considered how the Council is assessing the ongoing impact of the increasing managerial stretch on these arrangements.

Key findings

Assessing the 2015/16 budget

The first step in our work was to assess the assumptions the Council made in setting its 2015/16 annual budget.

We concluded that at the time of its preparation:

- ▶ the Council's budget was based on reasonable assumptions for both income and expenditure.
- ▶ the savings assumptions were significant, but the Council had incorporated a contingency reserve to recognise this risk.
- ▶ the budget and council tax setting paper to the Full Council clearly communicates the challenging financial position.

Significant risks:

We also evaluated the arrangements for monitoring and managing the budget, including the associated savings plans, concluding that appropriate corporate arrangements were in place.

We updated our assessment at two subsequent stages:

- ▶ On presentation of the 2014/15 outturn; and
- ▶ The 2015/16 quarter 1 report to the Executive

The 2014/15 outturn showed a small surplus was achieved for the year, with a contribution to the General Fund of £0.241 million.

The outturn report highlighted overspends within service areas, which we assessed against the 2015/16 budget assumptions to evaluate whether these had been reasonably included within that budget. We judged that it was likely the highlighted areas would remain as ongoing pressures, but the 2015/16 budget did recognise this risk.

We repeated this update when the first report against the 2015/16 budget was provided to the August 2015 meeting of the Executive, reporting as at the end of Quarter 1.

The report highlighted:

- ▶ A forecast outturn £3.3m overspend; and
- ▶ Key pressures within adult social care and children's service placements, adult social care income, concessionary fares, and contract management.

Related to the savings plans, the report highlighted:

- ▶ A projected full year shortfall of £2.991 million;
- ▶ Under-achievement to date of £1m (20%), with particular pressures within
 - ▶ Adult services
 - ▶ Public Transport
 - ▶ Income; and
 - ▶ Transformation to the new operating model

The projection demonstrated that the Council correctly identified the more risky areas of the savings plan in its calculation of its contingency reserve. The key areas assessed as being at risk in the planning assumptions were adult social care and the operational structure changes.

Critically, the Council has continued to manage its budget by actions to mitigate the overspends, and by identifying a further set of savings plans. This was presented to the September meeting of the Full Council. After these plans there is a projected variance of only £149,000 against the original budget.

Taking into account the Council's performance in previous years, we do not assess the 2015/16 budget is unachievable or that insufficient arrangements are in place. The Council's arrangements have identified this gap in performance, implemented mitigating actions, and identified additional savings options for the year.

We have also assessed the reserves and balances available to the Council. Using these would in all likelihood only present a short term solution and we would not recommend it as an advisable strategy. But, in making our judgements we do consider they are currently sufficient to cover short term risks.

However, the two reports do illustrate the scale of the challenge the Council faces. The additional savings identified contain a number of non-recurrent sources. This means an increased impact for the 2016/17 budget, further increasing the savings requirements by £1.4m for that year. This demonstrates the significance of making recurrent savings as planned, as non-recurrent solutions will only maintain the financial position for a limited time.

Progressing the organisational change programme:

Significant risks:

We obtained an overview of the change programme from officers, and assessed the corporate arrangements to support it including the:

- ▶ programme management arrangements; and
- ▶ development of the workforce strategy

In both respects we judged the corporate arrangements in place were consistent with the overall direction the Council is trying to achieve, and appropriate to implement and support the changes.

However, there is an ongoing question whether the arrangements will achieve the anticipated savings associated with these new ways of working. Although they remain linked to the overall Council strategy, the arrangements have yet to demonstrate a clear financial saving that are supported by specific plans. There was a general target of £1m for 15/16, and original £3.5m plan for 2016/17. These have both been reappraised downwards as part of the budget update to September 2015 Full Council, which in our judgement is appropriate.

Officer capacity:

Our review of the impact of risk around officer capacity focused on the arrangements the Council has put in place to monitor this risk and whether, in our judgement, any issues raised above are clearly the result of capacity issues.

The Council's arrangements are a combination of risk management, performance management, and monitoring of organisational health indicators such as staff sickness.

In combination we consider these to be appropriate to the risk that the Council recognises within its own strategic risks.

We considered also the progress the Council is making in implementing its management restructure, concluding that it is on-track with the key milestones.

We did not identify any adverse findings from our work in assessing the 2015/16 budget or implementing the Council's wider change programme that were clearly linked to officer capacity.

Therefore, we have reasonable assurance that the Council is appropriately recognising this risk. At the present time there is no clear evidence this risk is resulting in significant failings, but the risk is ongoing and the Council recognises this.

Overall Conclusion:

Taking account of the findings above, we judged that in each area appropriate corporate arrangements were in place.

Therefore, at this point in time we continue to assess that the Council has arrangements in place to maintain its financial resilience, and therefore, we judge an unqualified conclusion to be appropriate.

However, we take this opportunity to highlight that the scale of the challenge remains significant to the Council.

The Council is projecting, within a reasonable threshold, achievement of its 2015/16 budget based on the updated savings plans. But some pressures are being pushed backwards, for example by changing the Minimum Revenue Provision profile and policy. It is reasonable to look at all sources of current savings, but the focus should be on sustainable efficiencies in service delivery.

Future pressures may still come to light that further impact on the Council's finances, for example from the ongoing central government reviews of funding. This could increase the gap as the Council progresses its 2016/17 budget setting and rolls forward its medium term forecasts.

Although reassessed downwards, there are significant amounts of savings associated with the new operating model and transformation agenda. While these savings have been reduced there is still a need to continue to identify the specifics underpinning these estimates and how they will be achieved.

Significant risks:

Overall, the position is very challenging. It is clear that some difficult decisions are yet to come.

We expect to continue to review the Council's arrangements for financial resilience in our 2015/16 audit.

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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters identified during the audit that we concluded are of sufficient importance to merit being reported to you.

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Authority's financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be considered at Audit Committee on 29 September 2015.	Management and Audit Committee
Final statement of accounts	<ul style="list-style-type: none"> ▶ Finalisation by management for minor changes identified through the audit. ▶ Accounts re-certified by the responsible financial officer. ▶ Approval of accounts by Audit Committee. 	Management, Audit Committee and EY
Completion of substantive testing. At the date of this report we have a number of transaction tests to be completed in the area of: <ul style="list-style-type: none"> ▶ Income ▶ Expenditure, including schools; and ▶ Journals 	<ul style="list-style-type: none"> ▶ Completion of testing programme. 	EY

On the basis of our audit work to date, we anticipate issuing an unqualified auditor's report on 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 give an unqualified value for money conclusion on 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 2014/15 accounts from members of the public.

7. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £'s	Planned fee 2014/15 £'s	Scale fee 2014/15 £'s	Explanation of variance
Total Audit Fee – Code work	167,390	167,390	167,390	
Harbours – Agreed upon Procedures ¹	2,511	2,511		Scale fee adjustment requires confirmation with the PSAA.
Certification of claims and returns ²	22,770	22,770	22,770	

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2014/15.

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 2014/15. We plan to report this to those charged with governance in February 2016 within our Annual Certification Report for 2014/15.

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 which are uncertain or open to interpretation.

We determined planning materiality to be £4.368 million (2014: £4.082 million), which is 1% of gross expenditure reported in the accounts of £436.8 million. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We set our tolerable error for the audit at the upper end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set tolerable error at this level as a result of a track record of a low number of errors in previous periods.

We set a threshold against which we would report to the Committee all uncorrected audit differences. This is £218,000 (2014: £204,000).

Additionally, for the Firefighters' Pension Fund we set a separate materiality. We have determined this to be £20,700 based on 1% of benefits paid. We will communicate uncorrected misstatements greater than £1,000 to you.

8.2 Misstatements

There are no uncorrected misstatements at the time of drafting this report.

We have no corrected misstatements that we judge necessary to bring to your attention.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 April 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit Committee.

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 ▶ Any significant difficulties encountered during the audit ▶ Any significant matters, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Any other matters 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 we have identified or information we have obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	Enquiries made of the Committee Chairman, and response received dated as at 31 March 2015. 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 as at 31 March 2015.</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 9 of this Audit Results 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>
<p>Summary of certification work undertaken</p> <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	<p>Annual Certification Report – expected to be issued February 2016.</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 2015. 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 2015 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 2014/15.

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 2014/15.
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 2014/15 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 2014/15 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,

Managing Director

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2015

Chairman of Audit Committee

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