

Isle of Wight Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



The Members
Isle of Wight Council
County Hall
Newport
Isle of Wight
PO30 1UD

13 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results reports for the Council and the Pension Fund to the 29 September 2015 Audit Committee representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

This is the last year that I will audit Isle of Wight Council and my successor for the 2015/16 audit will be Helen Thompson. I would like to take this opportunity to thank officers for their assistance during the course of our work both this year and in the time I have been the auditor of the Council.

Yours sincerely

Kate Handy
Executive Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

1. Executive summary	1
2. Key findings	3
3. Control themes and observations	6
4. Looking ahead	7
5. Fees	8

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 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 Audit Letter 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

Our 2014/15 audit work was undertaken in accordance with the Audit Plans issued on 27 April 2015 for the Council, and 8 April 2015 for the Pension fund. It was 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.

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

The Council is also responsible for having 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, including the Pension Fund, and on the consistency of other information published with them
- ▶ reviewing and reporting by exception on the Council’s AGS
- ▶ forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- ▶ undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Isle of Wight Council and Isle of Wight Pension Fund for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2015 we issued an unqualified audit opinion on the Council’s financial statements On 29 September 2015 we issued an unqualified audit opinion on Isle of Wight Pension Fund.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 30 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 30 September 2015.
Consider the completeness of disclosures on the Council’s AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No significant issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Reports were issued to the Audit Committee on 18 September 2015 for the Council, and 21 August 2015 for the Pension Fund.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 30 September 2015

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 29 September 2015 Audit Committee.

Council's financial statements

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Firefighter Pension fund ill-health benefits

- ▶ During the year management had identified 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 was required.

Significant risk 2: 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, including for the Pension Fund, found no evidence of management override
-

Pension Fund financial statements

We again assessed that the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our pension fund audit were:

Change of pensions administration system

- ▶ The Council changed its pension's payroll system from Axis to Altair part way through 2014/15.
 - ▶ The transfer process was predominantly undertaken by Heywoods, the system provider.
 - ▶ We requested the conversion reconciliation reports to evidence that any issues highlighted had been appropriately reviewed by the Council officers and resolved. In our judgement this had been the case.
 - ▶ Additionally, we obtained the total of the pensions payments for each month of the year, and reviewed them for any significant fluctuations that may have indicated errors from the system change. We did not identify any such fluctuations
-

Change of asset custodian:

- ▶ The pension fund changed asset custodian in February 2015.
 - ▶ We obtained an understanding of the transfer through discussion with Council officers.
 - ▶ We judged the processes and controls implemented to be sufficient to identify any material error.
 - ▶ We obtained and evaluated the evidence of their operating effectiveness, predominantly the transfer reports between the two custodians and their review by Council officers. We concluded the control did operate effectively.
-

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2015.

We noted the following issues as part of our audit.

Financial Pressures

At the time of our planning our audit we identified that:

- ▶ the Council's medium term forecast looked forward to 2016/17 with a total savings requirement estimated to be £23 million. It was also projecting an overspend against its 2014/15 budget, and underachievement of its savings plans.
- ▶ The Council had a significant savings programme of £14.5 million in 2015/16, which was an increase of £8.5 million 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.

In each of the individual areas we assessed that arrangements had been put in place by the Council to manage these issues.

Therefore, at the time of giving our conclusion we continued to assess that the Council had arrangements in place to maintain its financial resilience. However, we do 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. This is based on an updated savings plan presented to Full Council in September 2015. But some pressures are being pushed backwards and managed through one-off 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.

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

Overall, the position is very challenging and some difficult decisions may yet be to come.

2.3 Whole of Government Accounts

We performed 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 had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any significant areas of concern. We observed that the Statement could be improved by the inclusion of an action plan to address the significant governance issues that the Council disclosed.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 29 September 2015. In our professional judgement, the firm is independent and the objectivity of Executive Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements, including the Pension Fund.

4. Looking ahead

Description	Impact
<p>Pension Fund administration</p> <p>There are a number of anticipated changes in both operational and senior management of the Isle of Wight Council who assist the administration of the local government pension fund.</p>	<p>There is a potential impact of a loss of knowledge of the pension fund and underpinning operations. The Council must ensure an adequate handover of roles and transfer of knowledge</p>
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require some changes to existing asset management processes and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities</p>	<p>CIPFA have produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015)</i>.</p> <p>The Council are not fully on track with the example timetable, but compared to a number of other authorities are in a more advanced position.</p> <p>The key issues to address will be:</p> <ul style="list-style-type: none"> ▶ the need to demonstrate completeness of base information, working closely with both internal departments and Island Roads; and ▶ the need to ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>

5. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our Annual Results Report.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Council Audit Fee – Code work	£167,390	£167,390	£167,390	£167,390
Total Pension Fund Audit Fee - Code work	£21,085	£21,085	£21,085	£21,085
Harbours – Agreed upon Procedures ¹	£2,511	£2,511		£2,511
Certification of claims and returns ²	£22,770	£22,770	£22,770	£19,614

Notes:

¹ Our work on the annual report and accounts for the Harbours is yet to be completed. The fee requires confirmation by the PSAA, so is not yet final.

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 within our Annual Certification Report for 2014/15.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

ey.com