

Isle of Wight Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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. This report is intended solely for the use of the Members of the audited body. 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 National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Isle of Wight Council for the year ended 31 March 2016. A small number of detailed work areas remain in progress at 13 September 2016 including work on Whole of Government Accounts. We will provide a verbal update on progress on outstanding work areas at the 26 September 2016 meeting of the Audit Committee.</p> <p>Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Fund's financial statements. This is subject to the completion of our outstanding work. The form of the proposed opinion appears in Appendix E.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p>
Audit differences	<p>Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Council's financial statements. This is subject to the completion of our outstanding work.</p>
Scope and materiality	<p>In our Audit Plan presented at the 18 February 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of approximately £4.4 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to approximately £3.8 million based on the reduced level of gross revenue expenditure reported in the financial statements compared to the prior year.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £218,000 to £188,000. The basis of our assessment is 1% of gross operating expenditure, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our audit plan.</p> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.</p>
Non-significant audit risks	<p>We identified the following non-significant risks during the planning phase of our audit, which we reported to you in our Audit Plan:</p>

-
- Island Roads PFI
 - New waste management contract
 - Minimum revenue provision (MRP)

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over these areas.

Other reporting issues	There is one other matter that we draw to your attention in Section 3 of this report.
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Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.
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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council 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 on any planned changes in the coming period.

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

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report on an exception basis on the Annual Governance Statement;
- consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the Council's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> · testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; · reviewing accounting estimates for evidence of management bias, and · evaluating the business rationale for significant unusual transactions 	<p>We identified no evidence of management override or bias as a result of our work subject to full completion of our work on journals.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Non-significant risks	Audit procedures performed	Assurance gained and issues arising
<p>Island Road Private Finance Initiative (PFI)</p> <p>Formal dispute proceedings, under the contract terms between the Council and Island Roads, the provider of its roads PFI, commenced at the end of 2015.</p>	<p>Although we considered this was unlikely to be material to our responsibilities, we have monitored developments in the area and considered the impact, on our responsibilities in respect of the financial statements opinion and value for money conclusion.</p>	<p>We have continued to monitor developments in this area and are satisfied there is no material impact on our responsibilities in respect of either the financial statements opinion or value for money conclusion.</p>

New waste management contract

The Council's previous waste management PFI came to an end during 2015/16 and a replacement contract was signed with a new provider in October 2015.

The new contract contains no element of private financing and therefore is not a PFI arrangement. However, the new contract continues to cover both the provision of services by the contractor and the re-provision of related capital assets.

The Council has considered the detailed contractual arrangements and believes they constitute a service concession arrangement for the purposes of International Public Sector Accounting Standard (IPSAS) 32. The value of accounting entries proposed by the Council is material to its 2015/16 financial statements.

We commissioned an EY contracts and financial modelling specialist to consider:

- ▶ the Council's determination that the contractual relationship is a service concession arrangement falling within the scope of IPSAS 32; and
- ▶ the financial models prepared by both the Council and contractor, and the accuracy of the related financial entries proposed in the Council's 2015/16 financial statements.

Ultimately the Council did not account for and disclose the arrangement in its 2015/16 financial statements as a service concession arrangement for the purposes of IPSAS 32. Its rationale for this was that the arrangement should be viewed as two agreements, one a fixed price contract for the development of capital assets, the other for asset maintenance and the provision of services.

Based on the work of our EY specialist we are not minded to challenge the Council's treatment. We note that the impact of accounting in this way as opposed to accounting for the contract as a service concession arrangement has only a trivial impact on the accounting adopted in the financial statements.

We are satisfied that the accounting models prepared by the Council and contractor are reasonable and that the accounting entries adopted in the financial statements reflect the models.

Minimum Revenue Provision (MRP)

Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement.

The Council proposes to make changes to both the historic basis on which it has charged MRP and its future approach to calculating the provision.

Although not material to our responsibilities in any one year, we commissioned an EY expert to review the changes proposed by the Council in this area.

The Council has not changed its approach to the calculation and charging of MRP in its 2015/16 financial statements.

It plans, however, to change its approach from financial year 2016/17. Our expert has considered the Council's detailed proposals and concluded they are reasonable and compliant with relevant guidance. If the approach is changed from 2016/17 and applied retrospectively this creates a significant cumulative over provision of MRP based on the amounts charged in previous periods. This will allow the Council to stop or reduce its annual MRP charge for a period of time. We consider the potential impact of this on the Council's medium term financial plans in our reporting of 2015/16 value for money conclusion work at Section 4 of this report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- qualitative aspects of your accounting practices; estimates and disclosures;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest.

There is one matter which we wish to bring to your attention.

As part of our work we found that the Council has not developed an approved contract management framework and there is no contract register beyond a simple list of contracts held. Given the significance and value of contracts let by the Council it is important this is addressed. The Council is currently considering how to develop it arrangements in this area in response to this issue, which has also been raised by Internal Audit.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

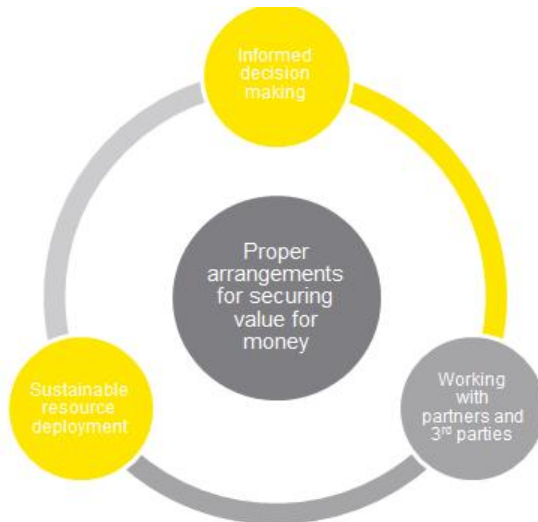
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently undertaking our work in this area and will report any matters that arise to the Audit Committee.

4. Value for money



We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

Overall conclusion

We identified a significant risk relevant to these arrangements that the Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We did not identify any significant weaknesses in the Council's arrangements. We did however identify a number of issues which we bring to your attention in the reporting below.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

We identified the following significant risk in our audit plan:

Significant risk: The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

The Council continues to face very significant, and increasing, financial challenges. At the time of our audit planning it needed to save in excess of £17 million in its 2016/17 budget to match its spending to the money it will have available. In total, the Council predicted that it will need to save some £31.5 million from its budget over the next four years. Residents were asked to give their thoughts on how this can be achieved through a major budget consultation exercise, and difficult choices will need to be made.

Continued reductions in government grants from the austerity agenda, and increasing demand and cost around key services such as adult social care and children's services are the key drivers of the need for significant savings. The Council contended that it continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need. In addition to discussions around devolution of financial control from central government to a combined Hampshire and Isle of Wight Authority, devolution of powers and responsibilities to town and parish councils is being pursued as well as other discussions taking place with government about opportunities for further support.

The Council faces particular challenges because of its geography and island status, for example difficulties in securing significant expansion in income streams through economic development or outsourcing services and/or working in partnership to deliver services with organisations outside of the Island. At the time of our audit planning doubts had been expressed as to how a balanced budget, as is required by law, could be set by 2017/18.

Our planned response

We planned to consider:

- ▶ PSAA's value for money profile tool to assess Council spending against similar councils.
- ▶ Updated assumptions within the Council's 2016/17 budget and medium term financial plan, including consideration of both the ongoing organisational change programme and the results of the resident's consultation exercise.
- ▶ Progress made on alternative solutions to secure longer term financial balance, for example the devolution of financial control to a combined Hampshire and Isle of Wight Authority.

Our findings and conclusions

PSAA VFM profiles

Public Sector Audit Appointments Ltd (PSAA) produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. We have used the latest available VFM profile data, largely relating to financial year 2014/15, to review the relative cost of Council services per capita against its statistical nearest neighbours and all unitary authorities.

The comparison against statistical nearest neighbours suggests the Council spending is in the highest 20 per cent per capita for most service areas. The main drivers, in terms of value, are the high levels of spend per capita on children and young people and adult social care. The overall position remains very similar when the Council is compared to all unitary authorities. However, other cost benchmarking undertaken by the Council against a tailored comparator group suggests that spending has in recent years reduced in both absolute terms and relative to others. This analysis is based on total levels of spending, rather than per head of population.

The Council has secured significant cost reductions over recent years and estimates that approximately £60 million of savings have been secured since the start of the austerity period. Although it remains essential that further savings are identified it is clear that an approach that solely continues to focus on the reduction of cost by the reduction of organisational capacity is unlikely to be sustainable over the medium term.

Updated assumptions within the Council's 2016/17 budget and medium term financial plan

At the end of 2015/16 the Council's revenue budget was £1.8 million underspent meaning that the full £4.4 million of planned funding from reserves was not ultimately required. The total of underspending areas was £5.9 million, mostly coming from capital financing and some corporate costs. Total overspending was £4.1 million, much of this coming from adult care services and contract management. Approximately £12.3 million of savings were delivered against a revised savings target of £12.5 million. The overall underspend was only achieved by making a planned net call on generally available revenue reserves of £2.5 million.

We have considered the financial resilience of the Council based on its reported 2015/16 outturn and latest update of its medium term financial plan (MTFP), produced in February 2016. Our analysis shows that the financial position of the Council remains highly challenged over the next three years. If net savings are not identified and future grant funding which is not considered to be certain, such as New Homes Bonus, is not received it is likely that the Council will have completely exhausted the general reserves it has available to support its revenue spending before the end of the three year

period considered. This conclusion is in the wider context of the Council's 2015/16 balance sheet already showing net liabilities and relatively high level of external debt and financing. It is therefore essential that action is taken to reduce costs or increase revenues.

Review of the February 2016 iteration of the MTFP showed that:

- Although a balanced budget was set for 2016/17 a savings programme of approximately £12.8 million would need to be delivered. This savings requirement was also net of a £4 million call on reserves. Approximately £3 million of the planned savings were not supported by detailed plans.
- Annual savings targets of approximately £12.5 million, £6.1 million and £3.8 million were needed in the years 2017/18 through to 2019/20. Each of these savings targets is based on the achievement of the prior year target and none of the savings from 2017/18 onwards had been identified at the time of the MTFP update.
- The main driver of additional costs is pressure on the adult social care budget brought about by increased demand and needs. Some of this additional cost pressure was assumed to be met by funding to the Council via the Better Care Fund.

Based on this it is clear that the Council's current level of net revenue spending is not sustainable. There have, however, been a number of significant developments subsequent to agreement of the last MTFP. Specifically:

- The Council is able to reduce the call on its revenue budget over the medium term by reducing the amount that it is required each year to set aside as provision for its external debt, known as its minimum revenue provision (MRP).
- A significant capital receipt of £17.5 million has been secured from Asda from the sale of land to be developed for a supermarket.
- The Council is considering investing in capacity to identify and develop regeneration schemes to develop the local economy and grow Council revenues. A key part of this would be the possible recruitment of a Director of Regeneration.

This provides some opportunity to both reduce short term pressures on the revenue budget and provide funds to strengthen organisational capacity and support targeted capital investment to increase revenues over the medium term. It remains essential, however, that ongoing work to review the current level of service provision and costs of the Council is also successful to help to restore medium term financial balance. The Council expects to more fully consider the results of all of these developments in the refresh of its MTFP planned for October 2016.

Devolution proposals

Solent Devolution plans, now made up of the Isle of Wight, Southampton City Council and Portsmouth City Council, have progressed and the Cabinet agreed in its July meeting that a Mayoral Combined Authority with Southampton and Portsmouth would be in the best interests of the Council.

The next stage is a consultation, which will feed back to the Executive in the autumn. If the combined authority goes ahead, the Isle of Wight will have to negotiate a share with Southampton and Portsmouth of the available devolution growth funds being offered over the next 30 years. It is not clear yet how this funding would be divided, with the allocation of funding needing to follow a proper process of evaluation and prioritisation with a Government endorsed assurance framework. Although devolution plans appear to be progressing the financial and other impacts on the Council are not yet clear, and the impact on the revised MTFP will need to be considered.

Other areas

We have also considered the Council's developing arrangements for the Better Care Fund (BCF) as part of our work to inform the value for money conclusion. The BCF is a major policy initiative

between local authorities, clinical commissioning groups (CCGs) and NHS providers. Its primary aim is to drive closer integration of care services and to improve outcomes for patients, service users and carers. In 2015/16, the Council commenced a partnership agreement, under Section 75 of the National Health Service Act 2006, with the Isle of Wight CCG in respect of the BCF.

Although BCF arrangements have been developed with the intention creating a joint operation to promote better integration, further work is required on both the legal form of the agreement between the parties and the operation of the partnership for it to be viewed as a joint operation in practice. We have concluded that the BCF is not yet operating as a true pooled budget and has not yet resulted in significant integration or changes in the way that services are commissioned or delivered. As at August 2016, the Council and the CCG had not agreed a 2016/17 fund, which had an initial proposed value of approximately £31.3 million. If a pooled fund were to be agreed at that level it would leave a budget gap of £1.4 million on Council adult social care costs for 2016/17. This budget gap puts further pressure on the Council's medium term financial plans.

Overall conclusion

The Council's current financial position and future financial outlook remains highly challenging. Our review of the last iteration of its MTFP would lead us to conclude that the Council was not able to plan finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore would have qualified the value for money conclusion. However, subsequent developments, and particularly the ability to reduce the annual MRP charge and extend and more evenly profile pressures on the revenue budget over the next five years, have given the Council more time to implement changes to address the financial challenge. It is now essential that this is done. This is likely to require further difficult decisions on priorities and levels of service provision to be taken, together with a change in the Council's focus away from solely reducing cost and organisational capacity to thinking differently about how financial change might be achieved through regeneration and revenue growth, and how available capital funding can be used to better support this.

Appendix A – Uncorrected audit differences

There are no uncorrected misstatements greater than our nominal amount of £188,000 subject to completion of our outstanding work.

Appendix B – Corrected audit differences

A number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 25 January 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 26 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 25 January 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	132,543	125,543
Harbours – Agreed upon Procedures	2,511	2,511
Certification of claims and returns	14,711	14,711

Our proposed final fee is £7,000 greater than the scale fee reflecting the additional work we have undertaken to consider the Council's revised approach to the calculation of MRP and the proposed accounting for the new waste management contract. The fee remains subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Draft audit report

Independent auditor's report to the members of Isle of Wight Council

Opinion on the Authority's financial statements

We have audited the financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement, and the related notes 1 to 44;
- The Collection Fund, and the related notes 1 to 6; and
- The Firefighters' Pension Fund.

Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Isle of Wight Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet;
- Cash Flow Statement, and the related notes 1 to 44;
- The Collection Fund, and the related notes 1 to 6;
- and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 13, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a

true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Isle of Wight Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Isle of Wight Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether the Isle of Wight Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Isle of Wight Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Isle of Wight Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are satisfied that, in all significant respects, Isle of Wight Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Isle of Wight Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Helen Thompson (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

September 2016

Appendix F – Management representation letter

[To be prepared on the Council's letterhead]

xx September 2016

Ernst & Young LLP

Wessex House

19 Threefield Lane

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 2016. 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 the Isle of Wight Council as of 31 March 2016 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 2015/16.

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) 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
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 2015/16 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 2015/16 that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because;
 - a. ***At this stage of the audit we do not expect there to be any unadjusted audit differences***

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.
 - 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.
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 all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than described in Note 33 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. For 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.

I. Comparative information – corresponding financial information

1. Prior year adjustments have only been included in the financial statements to correct material prior year errors.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Chris Ward

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 September 2016

Councilor Stuart Hutchinson

Chair, Audit Committee

Appendix G – Required communications with the Audit Committee

There are certain communications that we must provide to the audit committees of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <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
<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 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Isle of Wight Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <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
<p>Fraud</p> <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 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <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 	<p>We have received all requested confirmations.</p>
<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>We have not identified any material instances of non-compliance with laws and regulations.</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 Audit Results Report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Results Report</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter if considered necessary</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Certification Report</p>

EY | Assurance | Tax | Transactions | Advisory

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Isle of Wight Pension Fund

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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. This report is intended solely for the use of the Members of the audited body. 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 National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We report progress on our audit of the financial statements of Isle of Wight Pension Fund for the year ended 31 March 2016. A small number of detailed work areas remain in progress at 13 September 2016 primarily relating to review of the annual report and fully completing our work on IAS 19 procedures and controls. We will provide a verbal update on progress on outstanding work areas at the 26 September 2016 meeting of the Audit Committee.</p> <p>Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Fund's financial statements. This is subject to the completion of our outstanding work.</p>
Audit differences	<p>There are no unadjusted or adjusted audit differences based on the work completed to date that we wish to bring to your attention.</p>
Scope and materiality	<p>In our Audit Plan presented at the 30 June Standards and General Purposes Committee meeting, we communicated that our audit procedures would be performed using a materiality of £4.79 million. This has remained unchanged.</p> <p>The threshold for reporting audit differences which impact the financial statements has also remained broadly unchanged at £237,000. The basis of our assessment is 1% of net assets, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan subject to the outstanding areas of work as at 13 September 2016.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our Audit Plan.</p> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.</p>
Control observations	<p>We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.</p>

We would like to take this opportunity to thank the Pension Fund's staff for their assistance during the course of our work.

Tessa Gilbert

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Isle of Wight Council as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/2016 financial statements of the Pension Fund.
- Report on whether information in the Annual Report is consistent with the financial statements.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> · testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; · reviewing accounting estimates for evidence of management bias; and · evaluating the business rationale for significant unusual transactions 	<p>We have identified no evidence of management override or bias.</p> <p>We have also identified no significant unusual transactions in the course of our work undertaken to date.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

There is one matter which we wish to draw to your attention. As part of our work we noted that the Pension Fund risk register had not been updated during the course of 2015/16 and there were delays in returning some evidence requested as part of the audit. This, at least in part, was caused by a reduction in the number and capacity of officers working on the Pension Fund. New members of staff have been recruited during 2015/16 which should help to alleviate these pressures in the future.

Control themes and observations

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. At this stage we are not expecting to request any non-standard representations.

Other matters to bring to you attention

There are no other matters which we wish to bring to your attention subsequent to the completion of our outstanding work.

Appendix A – Uncorrected audit differences

There are no uncorrected misstatements greater than our nominal amount of £237,000 subject to completion of our outstanding work.

Appendix B – Corrected audit differences

A small number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 18 April 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 26 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 18 April 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	21,085	21,085

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Draft audit report

Independent auditor's report to the members of Isle of Wight Council

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Isle of Wight Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 13, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Isle of Wight Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tessa Gilbert

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

Xx September 2016

Appendix F – Draft management representation letter

[Date]

Tessa Gilbert
Ernst & Young
Apex Plaza,
Forbury Road,
Reading
RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of Isle of Wight Pension Fund (“the Pension Fund”) for the year ended 31 March 2016. 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 show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of the Pension Fund’s 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 for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

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 Pension Fund (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 Pension Fund 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.
2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
4. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

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.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the Audit Committee held through the year to the most recent meeting.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party 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.
6. We have disclosed to you, and the Pension Fund 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.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

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.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Advisory Reports

1. We have not commissioned advisory reports except for give details which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

H. Independence

1. We confirm that no member of the Audit Committee is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that the Pension Fund has made no direct investment in derivative financial instruments.

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson LLP as at 31 March 2013 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. 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.

Yours Faithfully,

Chris Ward

Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 September 2016

Cllr Stuart Hutchinson

Chair, Audit Committee

Appendix G – Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <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
<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 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <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
<p>Fraud</p> <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 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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 	We have not identified matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <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 	We have received all requested confirmations.
<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 	We have not identified any material instances of non-compliance with laws and regulations.
<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 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	None identified
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report

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