

Isle of Wight Council
Audit results report

Year ended 31 March 2017





Private and Confidential

13 September 2017

Dear Audit Committee Members

We have substantially completed our audit of Isle of Wight Council for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3 before the deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Helen Thompson
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the 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 (updated February 2017)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, other members of the Authority and management of Isle of Wight Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of Isle of Wight Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and management of Isle of Wight Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary

Executive Summary

Executive summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £3.777 million. We reassessed this using the actual year-end figures, which have increased this amount to £3.883 million. The threshold for reporting audit differences has increased from £188,875 to £194,000. The basis of our assessment of materiality has remained consistent with our Audit Plan at 1% of gross revenue expenditure.

Status of the audit

We have substantially completed our audit of Isle of Wight Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- completion of our work on pensions, and a small number of areas of expenditure;
- review of the final version of the financial statements;
- completion of subsequent events review;
- receipt of the signed management representation letter; and
- final completion of our procedures as required by the NAO on the Council's Whole of Government Accounts return.

Executive summary (continued)

Executive Summary

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Objections

We have received no objections to the 2016/17 accounts from members of the public.

Audit differences

There are no unadjusted audit differences arising from our audit

We identified a small number of audit differences which have been adjusted by management. We identified one misclassification between usable and unusable reserves of £1.4 million, which has been adjusted. This had no impact on income or expenditure, or the Council's net asset position. The remaining issues identified were principally in relation to disclosures and none are considered individually of sufficient significance to warrant reporting here.

Executive Summary

Executive summary (continued)

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Isle of Wight Council's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue; and
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified the following significant risk:

- Sustainable resource deployment, informed decision making and working with partners and other third parties – progress in the delivery of a sustainable medium term financial plan

On completion of our work, we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no inconsistencies to report as a result of this work. We noted through our audit procedures to review compliance with the Accounts and Audit Regulations that the Council's unaudited Annual Governance Statement was not published on its website by 30 June 2017, as required by the Regulations. Further detail on this is included at Section 6.

Our work to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission is currently ongoing. We will provide an update on this to the Audit Committee.

We have no other matters to report.

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.

Independence

Please refer to Appendix B for our update on Independence. There are no issues that we need to report.

We would like to take this opportunity to thank management and the staff at Isle of Wight Council for their assistance over the period of the audit. We would also like to thank the Council's external valuer of property, plant and equipment (PPE) for their prompt and detailed responses to our queries on PPE valuations.



02 Areas of Audit Focus

Areas of Audit Focus

Audit issues and approach: Risk of management override

Management override



What is the risk?

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.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for significant unusual transactions.
- We have reviewed and tested transactions shown in the Movement in Reserves Statement

What are our conclusions?

- We have not identified any evidence of management override. We did not identify any material errors in the financial statements or indications of fraud. We did not identify any inappropriate journal entries (or other adjustments) that impacted on the financial statements.
- We have not identified any instances of inappropriate judgements being applied in making estimates. We gave specific consideration to bad debt provisions and year end accruals.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.
- We did not identify any indications of management override through our testing of the Movement in Reserves Statement.



03

Audit Report

Audit Report

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 of Isle of Wight Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Balance Sheet; Cash Flow Statement; the Expenditure and Funding Analysis on page 18 and notes 1 to 52; the Collection Fund and the related notes 1 to 6; and the Firefighters Pension Fund financial statements comprising the Fund Account, Net Assets Statement and 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 2016/17.

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 Director of Finance and Section 151 officer and auditor

As explained more fully in the Statement of the Director of Finance and Section 151 officer's Responsibilities set out on page 17, the Director of Finance and Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the 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 2016/17, 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 circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Section 151 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 2016/17 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 2017 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 2016/17.

Audit Report

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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 2016, as to whether 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 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 2017.

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, Isle of Wight Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

Audit Report

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, 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 2017.

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
xx September 2017

The maintenance and integrity of the Isle of Wight Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences

Audit Differences

Audit differences

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

Summary of adjusted differences

We have included all known amounts greater than our calculated "performance materiality" (as set out in the International Standards on Auditing) relating to Isle of Wight Council in our summary of misstatements below. We have set performance materiality at £2.912 million, which is 75% of our headline materiality of £3.883 million, and is based on an assessment of risk in relation to the financial statements.

We identified no misstatements above this threshold. The main adjusted audit differences identified are noted in section one above.

Summary of unadjusted differences

There are no unadjusted audit differences above £194,000.

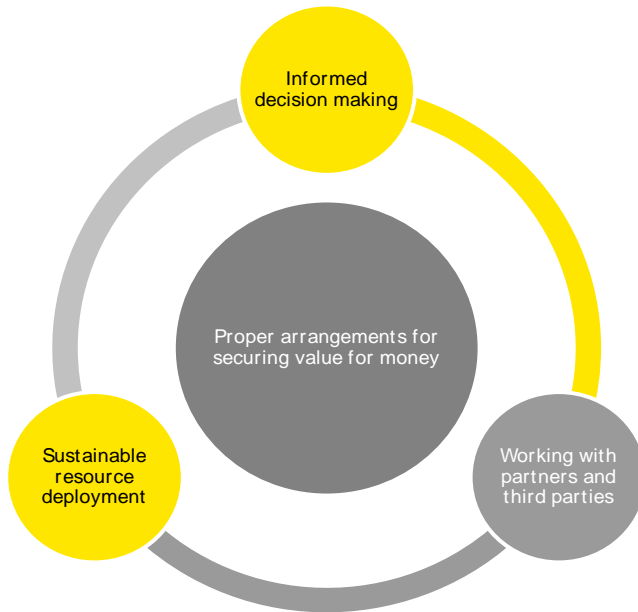


05

Value for Money

Value for Money

Value for Money



Overall conclusion

Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The section below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?

Progress in the delivery of a sustainable medium term financial plan.

What arrangements did this affect?

Sustainable resource deployment, informed decision making, and working with partners and other third parties.

Background

The Council continues to face very significant financial challenges. It needs to save £7.5 million in 2017/18 in order to maintain its general reserves at minimum levels. In the medium term, the Council needs to achieve total savings of £26.5 million in the period 2017/18 to 2020/21 (per most recently updated forecasts).

The Council’s island status continues to pose particular challenges and limit the opportunities for sharing of services and partnership working which are available to many mainland bodies. It remains the case that ongoing reductions in government grants as a result of the austerity agenda, and increasing demand and cost around key services such as adult social care and children’s services, are the main drivers of the need for significant savings.

Our work in 2015/16 noted that we would have qualified our value for money conclusion based on the savings requirements facing the Council and the uncertainty around some of the savings targets that budget plans developed in February 2016 contained. However, we noted some recent significant developments in the Council’s financial planning which meant an unqualified conclusion was given. Principally these were:

- Consideration being given to the appointment of a Director of Regeneration, with the specific purpose of increasing Council revenue streams.
- A change to the method employed to calculate the amount required by statute to be set aside annually to finance external debt – the “Minimum Revenue Provision” or MRP, with the potential to reduce expenditure in the short and medium term.
- The significant capital receipt arising from the sale of land to Asda for the development of a supermarket.

We noted in 2015/16 that the above developments had afforded the Council time to address the underlying challenges of its financial position – but that it was vital that recurring savings and opportunities for increased revenues were identified without delay. Our value for money work in 2016/17 will therefore focus on the progress made against the strategies set out in the most recent medium term financial plan to return the Council to a stronger financial footing over the next 4-5 years.

Value for Money

Our audit approach

Our approach focused on:

- Reviewing 2016/17 outturn against budget and understanding any significant cost pressures faced in the year and their potential recurrent impact on financial plans. Our 2015/16 work noted in particular a possible pressure arising from the Better Care Fund (BCF), which has been followed up through our work in 2016/17.
- Reviewing the progress made in setting a balanced budget and identifying the required savings for 2017/18.
- Reviewing the robustness of the most recent medium term financial strategy and the assumptions on which it is based. This included review of the “deep dive” on services which was planned as part of identifying recurring savings, and progress on the other key strategies set out in the medium term plan.
- Reviewing progress against key developments noted from our 2015/16 value for money conclusion including appointment of a Regeneration team and early plans arising in relation to their work; changes to the approach to MRP; planned usage of the supermarket capital receipt and the application more generally of the Council's available capital resources; and progress in proposed local devolution schemes.

What are our findings?

To inform our work we have met with the Director of Finance and s151 Officer, the Director of Regeneration, the Strategic Manager – Finance, and members of the finance team with responsibility for financial accounting, capital accounting and adult social care. We have also reviewed documents, committee reports, financial planning and monitoring, and strategies across the range of areas described in our audit approach.

From the evidence provided and discussions held we have noted the following:

- The Council achieved substantially all of its savings target for 2016/17 and is forecasting to do the same for 2017/18 as at Q1. It set a balanced budget for 2017/18 and furthermore had a better than planned outturn position for 2016/17, allowing a strengthening of general reserves above expected levels, adding to the Council's future financial resilience. With regard to the 2016/17 surplus, we note that approval was given at the February 2017 budget-setting Full Council meeting for the Director of Finance to transfer underspends to reserves, which per the final outturn position were made as follows:
 - £3m to the Revenue Reserve for Capital – with the supporting rationale that future capital obligations, needs and aspirations exceed the resources available, and to support further investment in Improving the Island Economy and support Income Generation or Public Service Transformation
 - £2m to General Reserves – with the supporting rationale of improving the overall financial resilience of the Council and its ability to respond to financial shocks or opportunities
 - £1m to the Transformation Fund – with the supporting rationale of facilitating Spend to Save initiatives.
 - We have not noted any significant weakening of wider arrangements to work with partners as a result of the BCF section 75 agreement for 2016/17 remaining unsigned.
 - The general assumptions on which the Council's Medium Term Financial Strategy (MTFS) are based appear reasonable.
 - Progress has been made on a number of key strands of the Council's MTFS including regeneration, and revisions to the capital programme. The Council has also commenced the planning for/implementation of a significant proportion of the sub-elements of the six “themes” set out in the MTFS.
-
- No issues have been identified with the prudence of the use of the MRP “holiday” in 2016/17 to allow time for other MTFS strategies to be progressed.
 - No tangible progress has been made on devolution schemes in the last year, but nothing had been built into the Council's financial plans in respect of the proposals, so no negative impact on the Council's forecast position

has been identified.

Value for Money



06

Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Statements 2016/17 with the audited financial statements. Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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, is specified by the National Audit Office.

Our work on the Whole of Government Accounts submission is currently ongoing. We will provide an update on this to the Audit Committee.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any relevant issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We noted through our audit procedures to review compliance with the Accounts and Audit Regulations 2015 that the Council's unaudited Annual Governance Statement was not published on its website by 30 June 2017, as required by the Regulations. The Council appropriately extended the period of public rights, to ensure 30 working days were available for inspection of the unaudited Annual Governance Statement. No further action was judged necessary. We have no other matters to report.

A large, high-resolution image of a single water droplet falling into a pool of water, creating concentric ripples. The background is a gradient of blue, from light at the top to dark at the bottom.

07 Control Environment observations

Assessment of Control Environment

Control environment observations

Financial controls

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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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. Our work did identify a small number of matters in relation to IT general controls, all of which have been communicated to IT management. None of these issues was significant enough to impact our overall assessment of the IT control environment.






8 Appendices




Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

|  Our Reporting to you | | |
|--|--|--|
| Required communications | What is reported? |   When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, including any limitations. | March 2017 Audit Plan |
| Significant findings from the audit | <ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process | September 2017 Audit Results Report |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 together to raise any doubt about Isle of Wight Council's ability to continue for the 12 months from the date of our report. |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing | September 2017 Audit Results Report |

Appendix A

|  Our Reporting to you | | |
|--|---|--|
| Required communications | What is reported? |   When and where |
| Fraud | <ul style="list-style-type: none"> ▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. | We have asked management and the Chairmen of the Audit Committee in 2016/17 about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit. |
| Related parties | <p>Significant matters arising during the audit in connection with the Authority's related parties including, where 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/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity | We have no matters to report. |
| Subsequent events | <ul style="list-style-type: none"> ▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements. | We have asked management and those charged with governance. We have no matters to report. |
| Other information | <ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. | We have no matters to report. |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations. |
| Consideration of laws and/or regulations | <ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee. | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations. |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | September 2017 Audit Results Report |

Appendix A

| Our Reporting to you | | |
|-------------------------|--|---|
| Required communications | What is reported? | When and where |
| Independence | <p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating 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 on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p> | <p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p> |
| Fee Reporting | <p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p> | <p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p> |
| Certification work | Summary of certification work | Certification Report (due early 2018) |

Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan taken to the March 2017 Audit Committee.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 25 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

| | Planned Fee 2016/17 £ | Scale Fee 2016/17 £ | Final Fee 2015/16 £ | Scale Fee 2015/16 £ |
|-------------------------------------|-----------------------------|---------------------------|---------------------------|---------------------------|
| Total Audit Fee – Code work | 128,054 ^b | 128,054 ^b | 135,074 ^a | 128,054 ^b |
| Certification of claims and returns | 17,078 | 17,078 | 14,711 | 14,711 |
| Total | 145,132 | 145,132 | 149,785 | 142,765 |

^a In our 2015/16 audit results report, we informed you that we had raised an additional fee of £7,020 for additional work performed in reviewing changes to the Council's calculation of Minimum Revenue Provision and its new waste contract. This additional fee was agreed with management and PSAA. The total fee shown also includes the permanent variation described at point b below.

^b Includes £2,511 for additional audit work on the two separate harbour accounts prepared annually by the Council. This has been agreed with the Council and PSAA as a permanent variation to the scale fee and is consistent with the fee for the same work in prior years.

Appendix C

Accounting and regulatory update

| Name | Summary of key measures | Impact on Isle of Wight Council |
|---|---|--|
| <p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p> | <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p> | <p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown; • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>To prepare for this change both we and the Council have targeted achievement of the earlier completion of work in 2016/17. This clearly represents significant progress.</p> <p>Moving forward, we will need to continue to work together collaboratively to ensure the necessary changes are made to working practices both at the Council and among the audit team, to ensure the new statutory deadlines are met in 2017/18.</p> |
| <p>IFRS 16 Leases</p> | <p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p> | <p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> |

Appendix C

Appendix D

Draft management representation letter

[To be prepared on the entity's letterhead]

25 September 2017

Helen Thompson
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Isle of Wight Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Isle of Wight Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. 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. As members of management of the Council, 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 2016/17, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Appendix D

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 identified or suspected non-compliance 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;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Executive / Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings on the following dates:
 - Full Council: 20/09/2017
 - Cabinet: 14/09/2017
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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Appendix D

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Comparative information – corresponding financial information

1. There have been changes to the structure of the Financial Statements during 2016/17 with the introduction of the Expenditure and Funding Analysis (EFA). The financial statements for 2015/16 have been restated to incorporate these changes. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Appendix D

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, the valuation of the pension fund liability, and the valuation of the business rates appeals provision, and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

J. Estimates - Valuation of property, plant and equipment, valuation of pension fund liability, and valuation of business rates appeals provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the estimate of the valuation of property, plant and equipment, the valuation of pension fund liability, and the valuation of the business rates appeals provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Chris Ward

(Director of Finance and Section 151 Officer)

I confirm that this letter has been discussed and agreed at the Audit Committee on 25 September 2017

Appendix D

Councillor A Axford

(Chairman of the Audit Committee)

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