

Isle of Wight Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. 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 (updated 23 February 2017)” 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Isle of Wight Council (the Council) and Isle of Wight Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2017.

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

| Area of Work | Conclusion |
|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Opinion on the Council's and Pension Fund's: ▶ Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended. |
| ▶ Consistency of other information published with the financial statements | Other information published with the financial statements was consistent with the Annual Accounts. |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources. |

| Area of Work | Conclusion |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Reports by exception: | |
| ▶ Consistency of Governance Statement | The Governance Statement was consistent with our understanding of the Council. |
| ▶ Public interest report | We had no matters to report in the public interest. |
| ▶ Written recommendations to the Council, which should be copied to the Secretary of State | We had no matters to report. |
| ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report. |

| Area of Work | Conclusion |
|------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | We had no significant matters to report. |

As a result of the above we have also:

| Area of Work | Conclusion |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit. | Our Audit Results Reports were issued on 13 September 2017 and presented to the 25 September 2017 meeting of the Audit Committee for both the main Council and Pension Fund audits. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 26 September 2017. |

We anticipate issuing a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim in December 2017.

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

Helen Thompson

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Reports for the Council and the Pension Fund to the Audit Committee on 25 September 2017, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 24 January 2017 for the Council and 28 February 2017 for the Pension Fund, and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements, including the firefighters' pension fund and local government pension fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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

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

The background is a blurred office desk. On the left, a green plant is partially visible. In the center, there are several clear glass tumblers filled with water. Behind them, a laptop screen displays some data. In the foreground, there are papers with charts and tables, and a black pen.

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit reports on 26 September 2017.

Our detailed findings were included in our Audit Results Reports for both the main Council and Pension Fund audits presented to the 25 September 2017 meeting of the Audit Committee. In those reports, which were issued on 13 September 2017, we noted that there were some areas where our work was outstanding and was to be completed. We completed work in those areas and this enabled us to issue unqualified audit reports on the Council and Pension Fund financial statements. There were no matters arising from the completion of our work that needed to be reported to the Audit Committee.

The key issues identified as part of our audit were as follows:

| Significant Risk | Conclusion |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Management override of controls</p> <p>A risk present on all audits is that 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>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> | <p>Our comments here refer to both the Council and Pension Fund:</p> <p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed accounting estimates for evidence of management bias.</p> <p>We evaluated the business rationale for significant unusual transactions.</p> <p>We have reviewed and tested transactions shown in the Movement in Reserves Statement.</p> <p>We have not identified any material weaknesses in controls or evidence of material 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.</p> <p>We have not identified any instances of inappropriate judgements being applied in making estimates. For the Council, we gave specific consideration to bad debt provisions and year end accruals.</p> |

We did not identify any other transactions during our audit which appeared unusual or outside the Council's or Pension Fund's normal course of business.

We did not identify any indications of management override through our testing of the Movement in Reserves Statement in the Council's accounts.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | Thresholds applied |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning materiality | <p>We determined planning materiality for the Council to be £3.88 million (2015/16: £3.78 million), which is 1% of gross expenditure reported in the accounts of £388.3 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality for the Pension Fund to be £11.18 million (2015/16: £4.74 million), which is 2% (2015/16: 1%) of net assets reported in the accounts of £559 million.</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p> |
| Reporting threshold | <p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £194,000 (2015/16: £188,800) for the Council and £559,000 (2015/16: £237,000) for the Pension Fund.</p> |

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements identified during the course of our audit. The only matters identified were some minor disclosure and presentational issues, which were corrected by management.



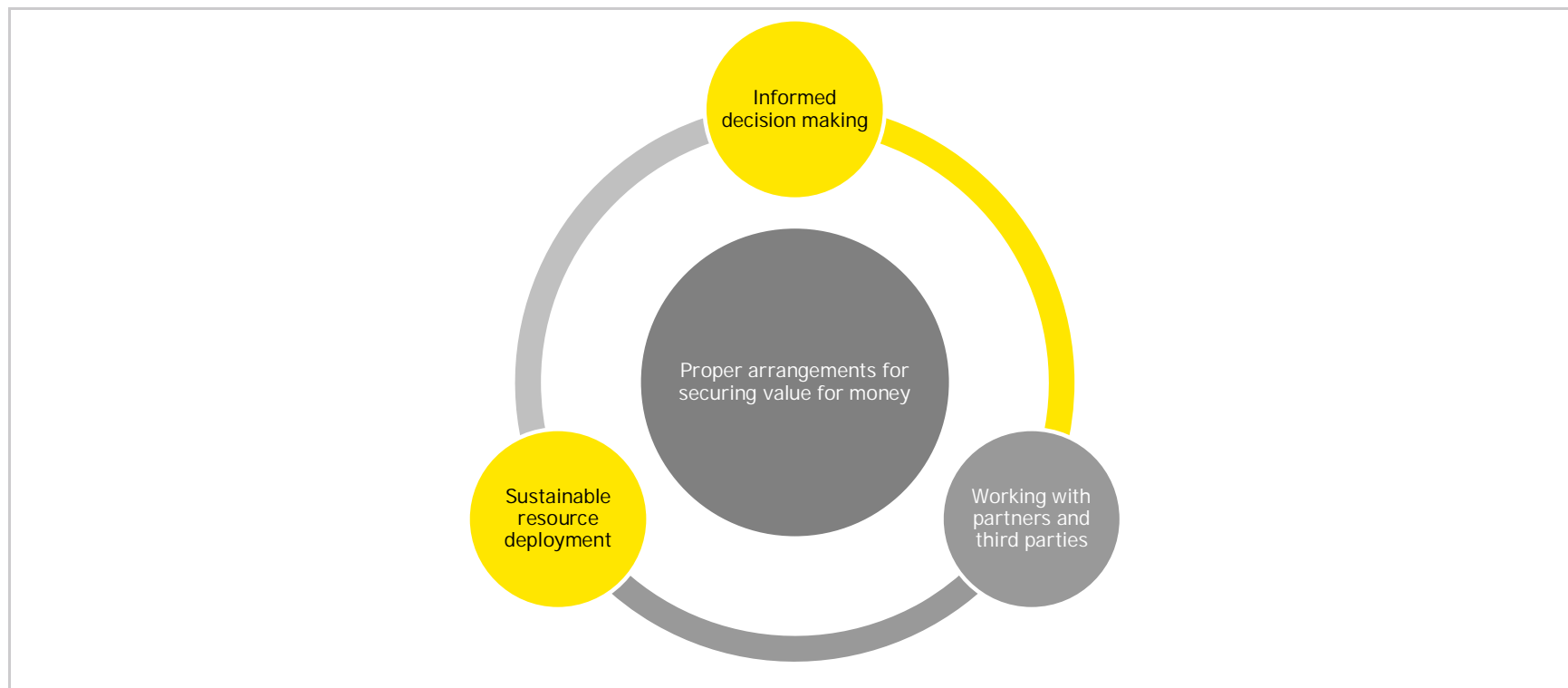
Value for Money

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.



We identified one significant risk in relation to these arrangements. We have performed the procedures outlined in our audit plan and the table below presents the findings of our work.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 26 September 2017.

| Significant Risk | Conclusion |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Progress in the delivery of a sustainable medium term financial plan</p> <p>Our approach focused on:</p> <ul style="list-style-type: none"> • Reviewing 2016/17 outturn against budget and understanding any significant cost pressures faced in the year and their potential recurrent impact on financial plans. • 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. • Reviewing progress against key developments noted from our 2015/16 value for money conclusion. | <p>From the evidence provided and discussions held, we have noted the following:</p> <ul style="list-style-type: none"> • The Council achieved substantially all 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. • We have not noted any significant weakening of wider arrangements to work with partners as a result of the Better Care Fund 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. • 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. <p>We recognise that the Council still has a long way to go in meeting its financial challenges and in bringing some of the key planks of its MTFS to fruition. However, we judge that sufficient progress has been made in 2016/17 to support our conclusion that the Council has appropriate arrangements in place in the year of audit.</p> |



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no significant issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports for the Council and the Pension Fund to the Audit Committee on 25 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

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

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

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the text overlay. A bright yellow rectangular box is positioned over the left side of the binoculars.

Focused on your
future

Focused on your future

| Area | Issue | Impact |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Earlier statutory deadline for production and audit of the financial statements from 2017/18 | <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year.</p> <p>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 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> |
| IFRS 16 Leases | <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 A

Audit Fees



Appendix A Audit Fees

Our fees for 2016/17 is in line with the scale fee set by the PSAA and reported in our 13 September 2017 Annual Results Report.

Council:

| Description | Final Fee 2016/17 £ | Planned Fee 2016/17 £ | Scale Fee 2016/17 £ | Final Fee 2015/16 £ |
|-------------------------------------------------------|------------------------------|--------------------------|------------------------|------------------------|
| Total Audit Fee – Code work | 128,054 ^a | 128,054 ^a | 128,054 ^a | 135,074 ^b |
| Total Audit Fee – Certification of claims and returns | To be confirmed ^c | 17,078 | 17,078 | 14,711 |

^a 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.

^b 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 in the point above.

^c The final fee for the certification of claims and returns for 2016/17 remains subject to completion of our work, the deadline for which is 30 November 2017.

Pension Fund:

| Description | Final Fee 2016/17 £ | Planned Fee 2016/17 £ | Final Fee 2015/16 £ |
|-----------------------------|------------------------|--------------------------|------------------------|
| Total Audit Fee – Code work | 21,085 | 21,085 | 21,085 |

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ED None

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