

Isle of Wight Council  
Audit results report

Year ended 31 March 2019

July 2019

Private and Confidential

16 July 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Isle of Wight Council for 2018/19. We will issue our final report following the Audit Committee meeting scheduled for 29 July 2019.

Our audit of Isle of Wight Council for the year ended 31 March 2019 is in progress at the date of writing this report. We plan for our work to be substantially complete by the date of the Audit Committee on 29 July 2019 and will provide an update on the ongoing areas of our work at the meeting.

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 at section 3, before 31 July 2019. 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 welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 29 July 2019.

Yours faithfully

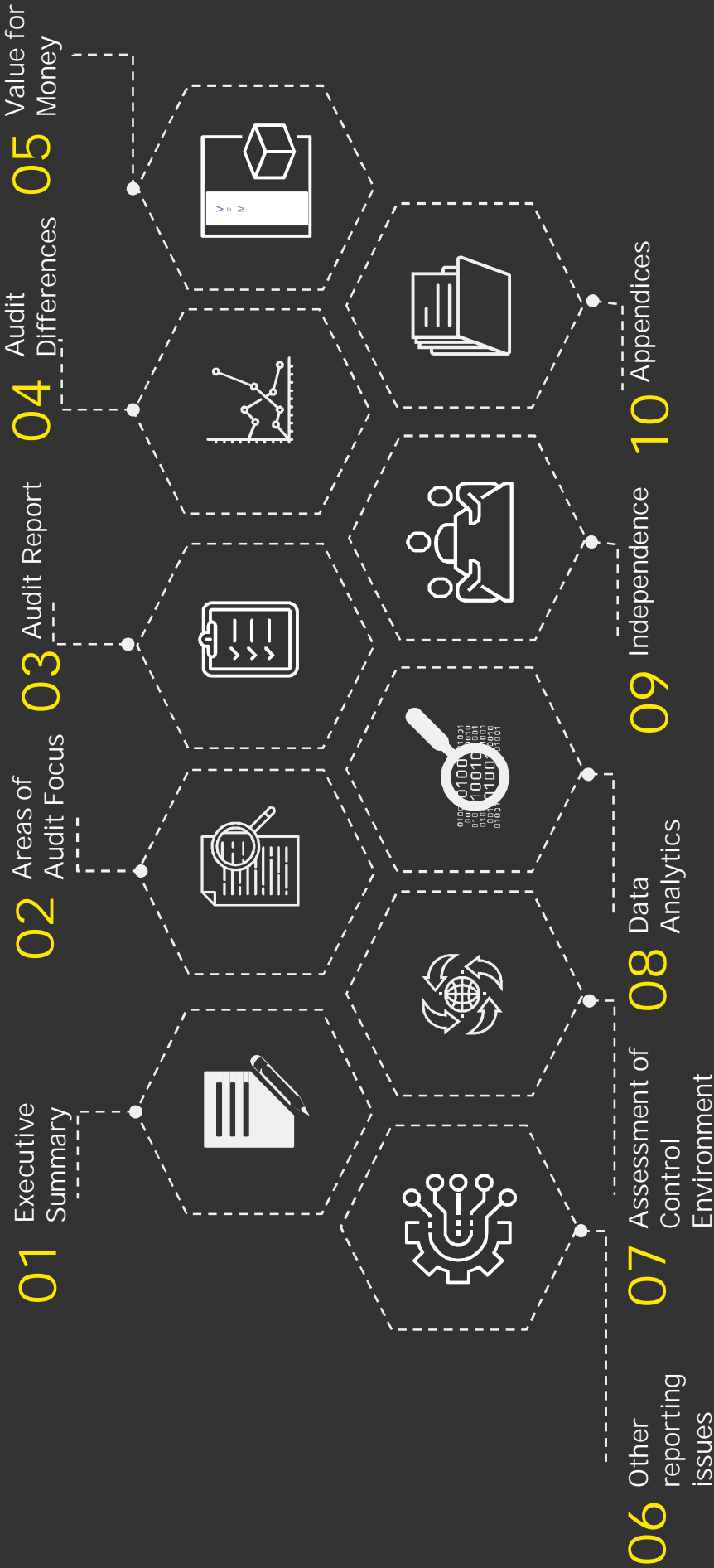
Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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.psaal.co.uk](http://www.psaal.co.uk)). This 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 April 2018)' 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. 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.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 18 February 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1% of gross expenditure on provision of services, we have updated our overall materiality assessment to £3.79m (audit planning report – £3.75m). This results in updated performance materiality, at 75% of overall materiality, of £2.84m, and an updated threshold for reporting misstatements of £0.189m.

## Status of the audit

Our audit of Isle of Wight Council for the year ended 31 March 2019 is in progress at the date of writing this report. We plan for our work to be substantially complete by the date of the Audit Committee on 29 July 2019 and will provide an update on the ongoing areas of our work at the meeting. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Creditors – sample test of creditor balances to be completed. All other work on creditors complete
- Firefighters pensions – testing of commutations and lump sums, and benefits payable, is ongoing. See also below and section 2 for further status update.
- Property, plant and equipment – well progressed, small number of tasks awaiting final completion
- Housing benefits expenditure - well progressed, small number of tasks awaiting final completion
- Pensions – see below and section 2 for status update
- Exit packages – evidence for one sampled item outstanding
- Review of Annual Governance Statement and Narrative Statement – well progressed, work awaiting finalisation.
- General audit procedures – well progressed, a small number of tasks awaiting final completion
- Final review of work to be completed

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission



# Executive Summary

## Status of the audit (continued)

A national issue has resulted in the need for a relatively late change to the Authority's accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which denied the Government leave to appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. At the time of writing this report, the Authority is in the process of updating its financial statements for an updated IAS19 report recently received from the Actuary of Isle of Wight Pension Fund and the Firefighters Pension Fund. Additionally, due to complications around the data used and the variety of schemes in operation, we are seeking to understand the inputs into the updated IAS19 reports for the Firefighters Pension Fund, to allow an appropriate audit approach to be established. We will provide a further update at the meeting of the Audit Committee on 29 July 2019.

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

## Audit differences

No unadjusted audit differences have been identified to date.

A small number of disclosure errors were identified as a result of our work, which have been corrected. None of these is of sufficient significance to warrant individual reporting.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the meeting on 29 July 2019 if we identify any issues from the work that remains outstanding at the time of writing this report.

## Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Isle of Wight Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section 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
- 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.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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

There are no matters we wish to report.

## 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 Planning Report we identified the following significant risk:

- Progress in achieving medium and longer term financial stability

We expect to have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

We review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. This work is currently ongoing, and we will provide an update to the Committee at the meeting on 29 July 2019.

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. As the Authority is below the threshold for full procedures, no work was required, and we have no matters to report.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.



# 02 Areas of Audit Focus



# Areas of Audit Focus



## Significant risk

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

### What is the risk?

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, leading to overstatement of Property, Plant and Equipment (PPE) and/or Investment Property (IP) in the Balance Sheet, and understatement of expenditure in the Comprehensive Income and Expenditure Statement.

The value of PPE additions in 2018/19 was £41.3m, and the value of IP additions was £35.2m.

### What judgements are we focused on?

Our work has focussed on any judgements exercised in determining whether expenditure is capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

### What did we do?

Our approach focused on:

- We selected a sample of PPE and IP additions to test and confirmed the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such as significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

### What are our conclusions?

We have selected our sample for additions, received supporting evidence for the sample, and our testing is well progressed. No indications of inappropriate capitalisation of revenue expenditure have been identified to date; we will provide a further update at the meeting of the Audit Committee on 29 July 2019.



# Areas of Audit Focus



## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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 judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the previous page of this report.

Our work on estimates focussed on PPE and Investment Property valuation, IAS19 pension estimates, PFI valuation, and calculation of the Business Rates Appeals Provision, which we have identified as areas of higher inherent risk. Our findings on these areas is set out on the subsequent pages in this section of our report.

#### What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

#### What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have identified any other transactions which appeared unusual or outside the Authority's normal course of business

We will provide a further update at the meeting of the Audit Committee on 29 July 2019.



# Areas of Audit Focus



## Other areas of audit focus

### Valuation of Land and Buildings and Investment Property

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net book value of PPE at 31/03/2019 was £482.5m, and the value of IP was £33.7m.

#### What did we do?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Tested on a sample basis the accuracy of information used by the valuer in performing their valuations (for example floor plans to support valuations based on price per square metre) and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for Investment Property.
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- Confirmed that accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

We have selected our sample for PPE and IP valuations, received supporting evidence for the sample, and our testing is well progressed. No indications of inappropriate judgments or estimation techniques have been identified to date; we will provide a further update at the meeting of the Audit Committee on 29 July 2019.

We have considered the work performed by the Authority's valuer, considered the annual cycle of valuations, and reviewed assets not subject to valuation in 2018/19, with no issues arising.

## Other areas of audit focus

### PFI accounting

#### What is the risk?

The Council has one PFI arrangement, which is material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist when the PFI was introduced. We will review the accounting entries and disclosures in relation to PFI in detail in 2018/19, with a focus on any significant changes since the specialist's review.

The finance lease liability for the highways PFI was £107.2m at 31/03/2019, and the value of PFI assets was £121.7m.

#### What did we do?

We:

- Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial models.
- Reviewed the PFI financial models for any significant changes.
- Ensured the PFI accounting models had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.
- Agreed outputs of the models to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and reviewed the completeness and accuracy of disclosures.

#### What are our conclusions?

We undertook the programme of work set out in the "what did we do" section of this page.

Our audit work confirmed there were no issues with PFI assets, liabilities or expenditure recognised in the financial statements, or with the PFI disclosures in note 45.

We are aware from our value for money work and review of post balance sheet events that there will be changes to the PFI as a result of agreed cost savings from 2019/20 onwards. This will be considered as part of our planning work in 2019/20 and we will involve our internal specialist as necessary to review changes to the accounting model.



## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme, for which the Council is also the administering body. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net pension liability at 31/03/2019 was £295.3m.

#### What did we do?

We:

- Liaised with the auditors of Isle of Wight Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Isle of Wight Council.
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

#### What are our conclusions?

Our work on pensions is ongoing at the time of writing this report. As referenced in section 1 of our report, the Authority has recently received a revised IAS19 report from the Actuary of Isle of Wight Pension Fund and the Firefighters Pension Fund, to enable updates to be made for the McCloud adjustments to the Authority's accounts, and we are seeking to understand the inputs into the updated Firefighters pension fund report. We will provide a further update at the meeting of the Audit Committee on 29 July 2019.

## Other areas of audit focus

### Business Rates Appeals Provision

#### What is the risk?

The Authority is required to make a provision to cover the possibility of successful appeals by ratepayers against the rateable value of their business property, and the commensurate refund of business rates resulting from such appeals. The provision must take into account both appeals lodged to date but not yet decided, and potential appeals yet to be received. The underlying appeals process is subject to a number of factors and as such the estimation of the appeals provision involves significant judgment. This has been further increased by the introduction of the new ratings list from 01 April 2017 and changes to the method of making appeals.

The value of the business rates appeals provision at 31/03/2019 was £6.8m.

#### What did we do?

We:

- Understood the Authority's approach to calculating the provision.
- Considered the work performed by the Authority's external specialist in relation to appeals against ratings lists prior to 2017, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Considered the Authority's approach to establishing the provision against the 2017 list, whether this was appropriate to the Authority, and whether the resulting provision was materially accurate.

#### What are our conclusions?

We understood the Authority's approach to calculating the business rates appeals provision, which included considering the accuracy of the approach taken to establishing the provision against the 2017 list. We also considered the work of the Authority's specialist in calculating the provision for ratings lists prior to 2017.

Our audit work did not identify any issues with the calculation of the business rates appeals provision.

## Other areas of audit focus

### New Accounting Standards

#### What is the risk?

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018.

IFRS 9 will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial instruments.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.

The key requirements of IFRS 15 cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

#### What did we do?

We:

- Assessed the Authority's implementation arrangements and accounting for 2018/19.
- Specifically, for IFRS 9, we:
  - Considered the classification and valuation of financial instruments.
  - Reviewed the implementation of the new expected credit loss (ECL) model impairment calculations for assets.
  - Checked additional disclosure requirements for compliance with the CIPFA Code.

#### What are our conclusions?

The Authority was able to demonstrate that implementation of IFRS 15 had no material impact on its financial reporting arrangements.

For IFRS 9 we are satisfied that:

- Required changes to the classification and accounting for financial instruments were made correctly.
- An ECL model has been used to determine potential impairments or provisions necessary for financial assets.
- Following some additions/minor amendments made as a result of our audit, CIPFA Code disclosure requirements have been met.

## Areas of Audit Focus



### Other matters

The Code requires the Authority to make preparations for the implementation of another new accounting standard for 2020/21, namely IFRS 16 – Leases. There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2020/21 financial statements.

The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the Authority.

We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and is identifying those that may require reclassifying. We therefore currently believe the Authority is well placed to address the implications of IFRS 16 but will keep this under review in 2019/20.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
  - new definitions of assets, liabilities, income and expenses
  - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
  - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).





# 03 Audit Report



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT COUNCIL

##### Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Isle of Wight Council for the year ended 31 March 2019 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 related notes 1 to 53 and Expenditure and Funding Analysis, 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 2018/19.

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 2019 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 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### Other information

The other information comprises the information referred to on page 4 of the Statement of Accounts. The Director of Finance and Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, 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 2019.

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 Authority;
- 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.

## Draft audit report

### Our draft opinion on the financial statements

Responsibility of the Director of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 5, the Director of Finance and Section 151 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 2017, 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 2019.

## Draft audit report

### Our draft opinion on the financial statements

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.

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 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.

### 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.

### Use of our report

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.

Helen Thompson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton



# 04 Audit Differences

## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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

A small number of disclosure amendments have been made to the financial statements as a result of our work to date. We have not identified any adjusted differences greater than £2.84m which would require individual reporting here.

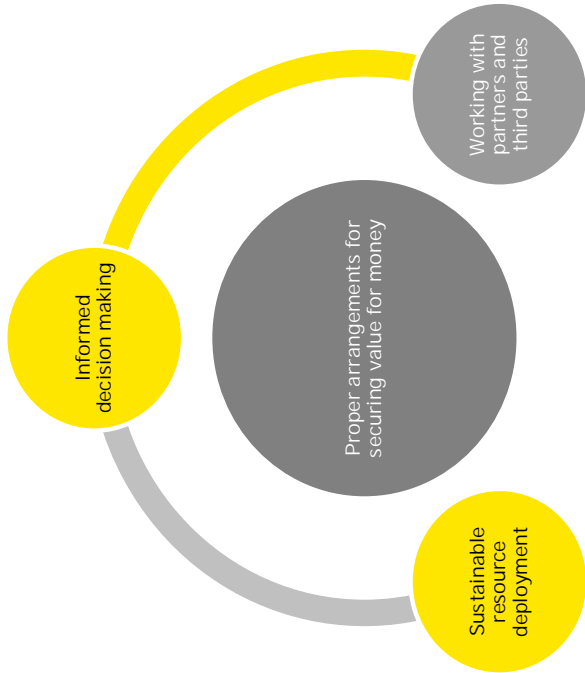
No unadjusted differences have been identified to date.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will provide an update at the Audit Committee meeting on 29 July 2019.



# 05 Value for Money Risks





## Background

We are required to consider whether the Authority 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.

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk in our audit planning report. No further risks were identified during the course of our audit.

We expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Value for Money

# Value for Money Risks

### What is the significant value for money risk?

Progress in achieving medium and longer term financial sustainability

The Authority continues to face very significant financial challenges as a result of ongoing reductions in funding from central government and increasing demand for high-cost services. It needs to save £5.5 million in 2019/20 in order to achieve a balanced budget, and in the medium term, the Authority needs to achieve total savings of £14.5 million in the period 2019/20 – 2021/22, made up of £5.5m for 19/20, £4.5m for 20/21 and £4.5m for 21/22.

We noted in our value for money conclusion in 2016/17 and 2017/18 that good progress had been made across a number of key areas linked to the Authority's current medium term financial strategy, which is intended to address the financial challenges it faces. We also noted the positive outturn positions achieved for 2016/17 and 2017/18, which had allowed a strengthening of reserves, and that a balanced budget had been set for 2018/19.

However, our work in 2016/17 and 2017/18 acknowledged that the financial pressures facing the Authority are ongoing, and that significant work remained to be done to bring some of the longer-term aspects of the medium term financial strategy to fruition. We have also noted through our 2018/19 planning procedures that the Authority faces potential additional financial challenges arising from recent developments, most notably concerning the Cowes chain ferry, highways PFI, and Christ the King school.

As such, we judge that the significant risk to the Authority's ability to deploy resources sustainably remains present in 2018/19, and it is important that the Council continues to maintain adequate levels of reserves and contingencies to mitigate against such risks. Our value for money work will therefore focus on the further progress made this year in strengthening the Authority's arrangements to ensure financial stability in the longer term, including addressing issues which have arisen since the medium term financial strategy was introduced.

### What arrangements did the risk affect?

In our audit planning report, we highlighted the potential impact of the risk on arrangements to deploy resources in a sustainable manner. We also consider some of the specific recent challenges noted above to present a risk to arrangements to take decisions in an informed manner and to work appropriately with partners and third parties.



## Value for Money Risks

### What did we do?

Our work focussed on:

- Reviewing the 2018/19 outturn against budget, and the consequent impact on the Authority's reserves and wider financial position. This included understanding any significant new cost pressures arising in 2018/19, including those specific matters noted on the above page, and any potential longer term impacts they may have.
- Reviewing the progress made in setting a balanced budget and identifying the required savings for 2019/20, and the robustness of underlying assumptions.
- Reviewing the further progress made against key elements of the Authority's medium term financial strategy in 2018/19.

### What are our findings?

The Authority has continued to make progress against its medium term financial strategy in 2018/19.

The outturn position for 2018/19 was positive, allowing general reserves and reserves for capital investment to be strengthened. The Authority achieved the large majority of savings against identified schemes in 2018/19, with any shortfalls mitigated by savings elsewhere such that no portfolio significantly exceeded its overall budget. Actions have been taken to mitigate the recurrent effect of those identified savings schemes which were below target.

A balanced budget has been set for 2019/20 and the assumptions underpinning this and the accompanying refreshed 3-year forecast appear reasonable. All required savings for 2019/20 have been fully identified.

Good further progress has been made in 2018/19 against the key underlying elements of the Authority's medium term financial strategy, including the 6 key "themes", and the establishment of a regeneration programme.

The Authority is continuing to work positively with the Solent Local Enterprise Partnership (LEP) to resolve the issues with the Cowes chain ferry. Historic project management issues have been acknowledged, and the Authority's Annual Governance Statement appropriately identifies this as an area of ongoing focus. Issues remain to be resolved with regard to the reliability of the new ferry; however, plans to address these are being formulated in conjunction with the LEP. We will continue to keep this under review in 2019/20.



## Value for Money Risks

### What are our findings? (continued)

The Authority and Christ the King School are co-defendants in a case relating to a contract for pre-fabricated sixth form buildings entered into by the school, the repayment of which it has now defaulted on. The Authority has sought appropriate legal and financial advice to determine which party has principal responsibility for the contract, and the substance of the arrangements underpinning the contract. The outcomes of this advice are not finalised at the time of our report, and the legal proceeding remains at an early stage. The inception of the contract is historic, and the Authority has taken appropriate advice on the legal case in 2018/19. We will continue to keep this under review in 2019/20.

The Authority has recently concluded the principal stage of negotiations to make savings from the ongoing costs of the Highways PFI, and to resolve specific issues identified around performance of the contract to date. The Authority has been successful in agreeing the expected £2m per annum savings from the PFI in the medium and longer term, and in obtaining redress for the specific historic issues. We note that elements of the agreement remain to be fully finalised but none of these is material to our responsibilities in any one year.

On the basis of work undertaken as part of our value for money procedures in 2018/19, we do not consider any of the above three issues to warrant a modification of our conclusion in the year under review. We will keep future developments in relation to the Cowes chain ferry and Chris the King school debt under review in 2019/20.

We continue to be mindful of the scale of the financial challenge faced by the Authority, and the savings to be achieved in the medium term remain significant. As such, we will continue to keep the Authority's ability to deploy resources in a sustainable manner under review going forward.



# 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 Statement of Accounts 2018/19 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.

Our work in these areas is ongoing at the time of writing this report. We will provide a further update at the meeting of the Audit Committee on 29 July 2019.

#### 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.

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. As the Authority is below the threshold for full procedures, no work was required, and we have no matters to report.

# 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 Authority 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 Authority, 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 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 Authority’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 have no matters to report at the time of writing this report. We will provide a further update at the meeting of the Audit Committee on 29 July 2019.



# 07 Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority 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. As we have adopted a fully substantive approach, we have not tested the operation of controls.

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.



# 08 Data Analytics

## Data analytics – Income & expenditure testing, payroll testing and journals

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Authority's audit included selecting samples for general income and expenditure testing, testing payroll costs, and identifying and focusing our journals testing on those entries we deemed to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer took place on a secured EY website. The transfer methodology is in line with our EY data protection policies, which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtained downloads of all of the Authority's financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the General Ledger and performed procedures to understand the data and identify unusual items. We then analysed the data against a number of specifically designed procedures.



Independence

09

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 06 February 2019.

We complied with the FRC 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 and your Audit Committee 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 29 July 2019.

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services recorded has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. We confirm that we have not undertaken non-audit work outside the NAO Code requirements in 2018/19.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work (note 1)	TBC	98,602	98,602	128,989
Non-audit work: Housing Benefit subsidy claim certification (note 2)	N/A	N/A	N/A	14,711

All fees exclude VAT

Note 1: As our audit is ongoing at the time of writing this report, issues may arise which could lead to additional fee being sought. There are no such matters identified to date.

Note 2: The Authority has appointed a new reporting accountant for the 2018/19 housing benefit subsidy claim.



# 10 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 detailed these here together with a reference of when and where they were covered:

Required communications		Our Reporting to you
	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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – February 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report – July 2019

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	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"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – July 2019
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report – July 2019
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit Results Report – July 2019

# Appendix A

		Our Reporting to you	
Required communications	What is reported?	When and where	
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report – July 2019	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – February 2019</p> <p>Audit Results Report – July 2019</p>	
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur.</li> <li>• 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.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report – July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance.</li> </ul>	Audit Results Report – July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.</li> </ul>	Audit Results Report – July 2019
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report.</li> </ul>	Audit Results Report – July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed.</li> <li>Breakdown of fee information at the completion of the audit.</li> <li>Any non-audit work.</li> </ul>	Audit Planning Report – February 2019 Audit Results Report – July 2019



## Appendix B

# Management representation letter

### Management Representation Letter

Ernst & Young LLP

Wessex House  
19 Threefield Lane  
Southampton  
Hampshire  
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 2019. 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 2019 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 2018/19.

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 2018/19.

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 2018/19. 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 2018/19, 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. **(NB - THIS IS SUBJECT TO FINAL CONFIRMATION)**

#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.

# Management representation letter

## Management Representation Letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

## C. 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 the Cabinet held through the year to the most recent meeting on the following date: 24 July 2019.
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 believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
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.

# Management representation letter

## Management Representation Letter

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than described in 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.

### F. Other information

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

### G. 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 and investment property, the IAS19 pension fund liability, and 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.

### H. Estimates

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 2018/19.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment and investment property, IAS19 pension liability, PFI valuation, and business rates appeals provision estimates 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 2018/19.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. 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.

## Management representation letter

### Management Representation Letter

I confirm that this letter has been discussed and agreed by the Authority on 29 July 2019

Name: Chris Ward

Position: Director of Finance and Section 151 Officer

Name: Councillor Brian Tyndall

Position: Chairman of the Audit Committee



## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2017 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)