Isle of Wight Council Auditor’s Annual Report

Year ended 31 March 2022

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 1 July 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2021/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on xx September 2023.
Going concern	We have concluded that 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 appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.

Audit of the financial statements - Isle of Wight Council

Key findings

The 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.

On xx September 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 20 March 2023 Audit Committee meeting, which we then updated and presented to the Committee Chairman in September 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported one area for improvement in the control environment in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure	Under ISA 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. From our risk assessment, we assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund. We did not identify any material weaknesses in controls or evidence of material management override. We tested a sample of additions to property, plant and equipment and confirmed they met the capitalisation requirements under IAS16. We reviewed expenditure classified as revenue expenditure funded from capital under statute. However, this was immaterial (£2m) for 2021/22 and therefore did not provide the incentive or opportunity to materially capitalise revenue expenditure inappropriately. We did not identify any instances of inappropriate judgements being applied.
Misstatements due to fraud or error - management override of controls	Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Audit of the financial statements - Isle of Wight Council

Significant risk	Conclusion
Valuation of Investment Property	Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet. Whilst the IP portfolio has remained unchanged, there was a £6.3m (c.18%) increase in valuation. The risk is heightened for traditional retail assets due to market difficulties. We completed our testing, with support from our own valuation specialists, and concluded the balance was materially correct.
Valuation of Land & Buildings	Property, plant & equipment land & buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet. Furthermore, there was a change in external valuer who would not necessarily be as familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions. Our testing identified two assets which were misstated. One asset, the Newport Forest Park Site, was overstated by £1.45m driven by the valuation methodology used and due to one of the elements of the site (the Energy Recovery Facility) not being operational yet at the date of valuation but was still valued by the external valuer. One further asset, Land at Fairlee Road, was understated by £185k due to the external valuer using an agricultural value based on a previous annual grazing licence that was in place resulting in a lower valuation. A revised valuation was performed resulting in an updated valuation of £499k. Management opted not to amend the accounts for these errors. The value of these errors was below our materiality threshold and overall we concluded that the balance was materially correct.

Audit of the financial statements - Isle of Wight Council

Other risks / areas of audit focus	Conclusion
Accounting for infrastructure assets	This has been a nationwide local government issue. The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA worked on a sector wide approach to resolution of the reporting of infrastructure assets. DLUHC issued a Statutory Instrument, which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets. A CIPFA guidance note was issued in January 2023 to provide further guidance to affected local authorities. The Council provided us with their assessment of the Statutory Instrument application and the updated statement of accounts with the new presentation and disclosure of infrastructure assets. We reviewed the Council's working papers and disclosures and assessed these as reasonable. The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore raise the following recommendation for improvement. *Recommendation* - Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.
Pension Liability valuation	The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf. As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation. Management commissioned an updated IAS 19 report from their actuary, processing this change within the financial statements, being a decrease in the pension liability of £2.9m. Due to the material movement within these figures we performed additional procedures. This work included additional membership testing (completed at the Pension Fund level) and obtaining updated assurances from PWC as the consulting actuary. We are satisfied that the updated assumptions within the revised report are supportable. One further issue was identified from the results of our testing. Our EY Pensions specialists reviewed the revised year-end liabilities. A threshold of 2% is used when deciding whether management's estimate of the liability was reasonable. EY Pensions were able to reconcile the triennial valuation figures produced by the actuary to a difference of 2.22%. Rather than investigate further, it was agreed with management that the difference above 2% (£2,177k) be considered as a judgemental difference and included in our schedule of misstatements.

Audit of the financial statements - Isle of Wight Council

Other risks / areas of audit focus	Conclusion
Pension Liability valuation (continued)	We considered reports or data extracts from the membership administration system and submitted to the actuary as information produced by the entity (IPE) relevant to our work to gain assurance over the triennial valuation. The testing of the validity of data points is attribute testing and we use a sample of 25 to gain assurance over the IPE. Each report/data extract submitted to the actuary constitutes a separate piece of IPE. If there are multiple reports or extracts, we would need to test a sample of 25 per report/extract. We selected a sample of 25 items for each report and agreed the data points back to sufficient and appropriate evidence. Exceptions identified: Overall, for all 125 items tested, we were able to agree at least one data point to supporting prime documentation and/or obtain other evidence or support to give reasonable assurance over the IPE tested. For 1 out of 125 items, from the dependent category, management was not able to provide any supporting evidence for the date of birth. We note that this does not mean that the data point is wrong, only that we are not able to verify its accuracy. We do not consider the above issue to be indicative of more pervasive issues or control weaknesses given the number of items tested (125) and the number of data points tested per item. Whilst we were able to obtain sufficient assurance over the accuracy and completeness of information taken from pension fund membership administration systems provided to the fund actuary to inform the 2022 triennial valuation dataset, in terms of the membership data testing performed, initially we were not able to resolve all of the queries with the Pension Fund in a timely manner as they do not hold/retain the information, nor are they required to given the Council is the employing authority. This caused significant delays in completing the audit, exacerbated by the fact that some of the evidence is held with the independent external payroll provider for schools. *Recommendation* Improve the quality of Fund membership data held on the pensions administration system.

Audit of the financial statements - Isle of Wight Council

Other risks / areas of audit focus	Conclusion
PFI Accounting	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 reviewed the accounting entries and disclosures in relation to PFI in detail in 2021/22, with a focus on any significant changes since the specialist's review. Based on our work we are satisfied that: • Inputs to the PFI model was supported by evidence. • The model continued to operate correctly. • Output from the model was correctly reflected by the relevant accounting entries and disclosures in the financial statements. • PFI assets were correctly accounted for and disclosed.
Going concern	The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period. Management produced a going concern assessment to the beginning of the September 2022 which was subsequently updated in February 2023 to take account of significant budget pressures associated with macro economic factors. This is referenced to a cash flow forecast which shows ongoing liquidity over the assessment period. We also reviewed and further challenged the going concern disclosure made by the Council. Based on all of this we are satisfied that management's assessment is reasonable and supportable, and that disclosures in the financial statements are an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.

Audit of the financial statements – Isle of Wight Pension Fund

Key findings

On xx September 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 20 March 2023 Audit Committee meeting, which we then updated and presented to the Committee Chairman in September 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported two area for improvement in the control environment in the Audit Results Report.

Significant risks	Findings and Conclusion
Misstatements due to fraud or error	We carried out procedures to address fraud risks as set out in our outline audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach. We performed a reconciliation between the fund managers' reports and the custodian reports to address the risk of manipulation of asset valuations. We had no matters to bring to your attention.
Risk of manipulation of Investment income	We performed a reconciliation between the fund managers reports and the custodian reports. We also performed specific journal entry testing in response to this risk. we have completed our work in this area and have no matters to bring to your attention.
Valuation of complex investments (Level 3 Fair Value hierarchy)	We undertook additional procedures, as described more fully in Section 2 of this report, to gain assurance over the year-end valuation of the Fund's Private Debt and Infrastructure Assets investments. We have completed our work in this area and have no matters to bring to your attention.

Other area of audit focus	Findings and Conclusion
Disclosure on Going Concern	We obtained management's going concern assessment and the adequacy of the disclosures in the financial statements. We have completed our work in this area and have no matters to bring to your attention.
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	We carried out procedures as described more fully in Section 2 of this report, to gain assurance over the IAS 26 actuarial statement and the associated disclosure of the actuarial present value of promised retirement benefits as a note to the accounts. We have completed our work in this area and have no other matters to bring to your attention.
Triennial valuation 2022 – Membership data testing	We carried out procedures as described more fully in Section 2 of this report, to gain assurance over the accuracy and completeness of information taken from pension fund membership administration systems provided to the fund actuary to inform the 2022 triennial valuation dataset. We have completed our work in this area and communicate our observations in section 6 below.

Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 8 March 2023 Audit and Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Director of Finance and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 10 to 12. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The council has appropriate arrangements in place to ensure financial sustainability.

The medium term financial strategy (MTFS) is updated annually, looking forward over a 3 year period.

Throughout 2021/22, the MTFS in place was the "Budget and Council Tax Setting 2021/22 & future years forecasts". This was presented at Council in February 2021 and established a COVID Fund of £14.2m for the next 3 years (commencing 2021/22), to provide a good level of surety that the Council will be able to continue to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy after effects. The 2021/22 budget also included a target of £3.5m savings and a further forecast of £3m savings per annum over the following 3 years as well as a draw down from reserves of £5.4m up to 2024/25. Towards the end of 2021/22, the updated MTFS was released being the "Budget and Council Tax Setting 2022/23 & future years forecasts". The medium-term financial plan included a reduced draw down from reserves of £2.7m up to 2025/26 as well as a revised savings target of £2m per annum over the following 3 years to 2025/26, an improvement on the £3m per annum in the previous MTFS.

Subsequent to the year we are assessing, the most recent update to the Financial Strategy was for 2023/24 to 2026/27 and was revised and approved by Council in February 2023. The forecast indicates that there continues to be a number of spending pressures facing the Council over the coming years as core funding sources are expected to fall whilst unavoidable costs increase. A balanced budget was set for 2023/24 with no significant gaps in the future years to 2026/27, albeit with a savings target of £2m per annum.

Any potential gaps will need to be addressed by the Council in the forthcoming periods, but the Council has a good track record of addressing gaps and achieving savings targets through their annual budget processes and putting in place arrangements to do so in advance of the annual budgets based on their forward projections.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council had arrangements in place to ensure it made informed decisions and properly managed its risks.

The Council has in place frameworks for risk and performance management alongside the strategy and policy that sets out the framework arrangements and responsibilities for the successful delivery of agreed priorities and intended outcomes. Risks and performance are monitored and reported to corporate management team and review is undertaken by the Corporate Scrutiny Committee.

Internal Audit conduct audits annually which confirm that there are authorisation controls around accounting transactions and corrections which reduce the risk of fraud or error.

The Audit and Governance Committee are also presented with quarterly updates from Internal Audit on its programme of internal audits which cover a broad range of operational areas. This gives the Committee assurance over the effective operation of internal controls and includes reporting on areas of fraud detected. The Council also takes part in the National Fraud Initiative work.

The Audit and Governance Committee receives an annual report on the incidence of fraud within the Council, which also informs them of the range of processes, policies and strategies which the Council has for identifying and responding to fraud or error. The Audit and Governance Committee has the opportunity to review the Council’s draft accounts and reviews the Annual Governance Statement. Any weaknesses in the system of internal control would be highlighted in the Statement.

The Council has a call over process whereby a panel of officers chaired by the monitoring officer and including legal, finance, democratic services and communications review and discuss all draft reports with the report authors prior to publication. Reports are presented to Scrutiny Committee in advance of decision at Cabinet Meetings to allow challenge and transparency and for Scrutiny to give any recommendations to Cabinet.

The Audit and Governance Committee provide effective governance by receiving a wide range of key reports including from external and internal audit, periodic reports on strategic risks, annual governance statement, statement of accounts, treasury management strategy and contract monitoring.

The Monitoring Officer and Director of Finance maintain their legal responsibilities to ensure that the Council acts legally and within its financial means.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's priorities and objectives. The Cabinet and Corporate Management Team (CMT) are collectively responsible for delivery of the Corporate Plan and monitors progress against the key projects, budgets and performance measures on a regular basis.

To track performance and judge how well the Council are delivering their services, financial and performance information is discussed regularly at Directorate Service Boards, CMT and Cabinet. Performance information is collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement. Reporting of performance is combined with financial monitoring in Quarterly Performance and Finance Reports.

The Council has engaged in a Corporate Peer Review to review and challenge the way it sets priorities, determines strategy and delivers its services in a financially sustainable way. Benchmarking takes place within many service areas to compare performance with national and statistical neighbours to identify where there are opportunities for improvement. At year end performance is measured in relation to the Corporate Plan.

In accordance with section 135 of the Local Government Act 1972 the Council has a set of contract standing orders (CSOs) that governs how the Council conducts procurement processes and awards contracts.

The Council has a procurement and contract monitoring team who oversees the Council's procurement activity and actively manages, alongside the lead commissioner, any procurement where the whole life value of the contract is over £25,000. This ensures compliance with CSOs and the Public Contract Regulations 2015 (where applicable) and other associated legislation such as the Public Services (Social Value) Act 2012.

During the year under review, as part of our value for money procedures we also undertook a follow up review of the arrangements in place to deal with the challenges and operational issues the Council has been facing with the Cowes Floating bridge service. We have reviewed the processes and arrangements in place where the Council proceeded to a mediated settlement with the counterparties and were satisfied that the Council took appropriate action to ensure that it obtained the expected benefits from these contracts. We did not identify any significant weaknesses in these arrangements. The Council continues to consider its options around the future of the Cowes Floating Bridge.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Council sets a balanced revenue budget annually. At that same meeting any savings requirement for the following financial year is set in order to provide adequate advance notice and a stable planning environment. The budget is therefore used to ensure financial resources are aligned to areas where the Council believes it will secure the greatest benefit to residents of Isle of Wight. The annual budget is then linked to the medium-term aspirations of the Council through its medium-term financial strategy (MTFS), which considers a four year forward view, and its capital programme which extends to 5 years. Council members are fully engaged in this process, including an annual member briefing on the budget in addition to further review by scrutiny committees. In-year pressures are identified through monthly Service Board Reporting to each Directorate. A summary report is then prepared for the monthly CMT (Directors) and the Corporate Leadership Team (Directors & Cabinet Members). Pressures are firstly dealt with at a Directorate/Portfolio level with the aim of resolving them on an on-going basis. Any pressures which cannot be resolved on an on-going basis will then be considered as additions to the budget when the MTFS is reviewed during the process to develop the Budget Report for approval each year in February. Unavoidable pressures, inflation, growth and funding levels are then assessed, and a savings plan developed to produce a balanced budget. In terms of further medium-term pressures the Council uses a Star Chamber process to address plans to meet savings targets and to examine financial pressures and Capital Investment needs that may need to be built into the MTFS. The Covid-19 pandemic continued to have a significant impact on Council operations, services and finances in 2021/22. This will continue to have a legacy effect into 2023/24 and beyond, although the extent and duration of the impact remains uncertain. Covid-19 impacts have needed, therefore, to be considered in both the Council's current financial management arrangements and future financial plans. For the next 3 years (commencing 2023/24), a COVID Fund established in 2020/21 of £14.2m has provided a good level of surety that allowed the Council to continue to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy after effects. At present the Covid Contingency is forecast to be £8.4m at the end of 2022/23, £4.2m by the end of 2023/24 but fully utilised over the following 2 year period to cover care related costs. Despite the impact of Covid-19 the Council was able to deliver a revenue underspend of £2.7m on portfolio budgets in 2021/22. This underspending was transferred to reserves, including £1.7m to the Revenue Reserve for Capital to support future Capital Investment needs. Significant budget gaps remain in the last iteration of the MTFS produced in February 2023, a forecast for the 3 year period beyond 2022/23 will require a further £6.0m in savings or £2.0m per annum (from £3m per annum previously).

Appendix A – Summary of arrangements

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	Delivery of the capital programme has been affected by the pandemic with spending totalling £27.8m for the year, against an updated capital programme of £56.1m approved in February 2021, a total variation of £28.3m or 50%, this variation being slippage as opposed to underspending. Looking forward, the Council's Capital Strategy for the period 2023/24 to 2027/28 was approved by full Council in February 2023, and within that the five-year Capital Programme. The total value of schemes in the 2023/24 to 2027/28 capital programme is £164.4m. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £6.0m, there is a significant shortfall ("capital gap") to be met. All of the core funding has some degree of obligation attached to it, £2.5m is ringfenced to the Better Care Fund and Devolved Formula Grant, and the rest although not ringfenced, is expected to be targeted at schools and highways. The overall implication being that there is virtually no routine annual funding available for capital investment beyond those items in the capital programme. Given the scale of the "capital gap", the necessity to supplement the capital resources available remains an explicit feature of the Council's approved MTFS so that the Council can continue to fund essential services but also fund regeneration and income generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island.
How the body plans to bridge its funding gaps and identifies achievable savings	In the first instance, estimates of the overall forecast financial position of the Council are prepared annually. These forecasts look four years ahead and are reviewed annually. This identifies the "budget gap" and sets out the savings required (and its phasing) over the coming period. The identification of a robust programme of savings to bridge funding gaps while minimising the adverse impact on residents therefore is a necessary part of annual budget setting and medium-term financial planning. The Council uses a savings model to allocate the savings targets plus an amount of headroom to each portfolio. The model uses a weighted scoring approach which takes into account the service priority, the recognition of financial pressures, the ability to generate income and the opportunity to make further efficiency gains. Directors and Portfolio Holders are charged with developing a plan of on-going savings to reach the target set. A series of Star Chamber meetings will be held between the Director, Portfolio Holder, Leader, Cabinet Member for Resources and Senior Officers including the Chief Executive, Deputy Chief Executive and the Director of Finance and Assistant Director of Finance to scrutinise the options for impact and deliverability. The process begins in June/July to allow a significant amount of time for plans to be considered and finalised. At the end of the process a list of savings options amounting to (or preferably exceeding the total savings target to offer some choice) will be discussed with the Cabinet and the final list of savings amounting to the total required will be determined.

Appendix A – Summary of arrangements

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	The Council routinely reports the delivery of savings in its quarterly revenue monitoring reports, as part of its wider monitoring of financial and business performance. Historically the Council has a good track record of delivery and reports that around £93m of savings had been delivered at the end of 2021/22 since 2011. In 2020/21 the Council delivered savings of £5.2m against a planned savings target of £4.5m. The budget for 2021/22 assumed savings of £3.5m. Due to adverse variances within Adult Social Care and Children's Services the Council achieved a net savings/underspend of £2.7m. The failure to deliver against target in these areas within Adult Social Care and Children's Services were due to various pressures across care packages, in particular residential care and nursing and residential placements, secure placements and leaving care costs in the case of Children's Services. The Council considers that the majority of the shortfall in savings at the end of 2021/22 was mitigated by the use of Covid-19 contingency fund. The new forecast for the new 3 year period (now extended to 2026/27) is a £6.0m deficit. The new forecast is subject to unprecedented uncertainty due to the elevated levels of inflation, unavoidable cost pressures arising in care services, the level of successful business rates appeals and the impact of the local government funding reform; the forecast could vary by +/- £5m. Future forecasts do not provide for adequate replenishment of the transformation reserve or contributions towards future necessary capital investment requirements, making the recommendations to use any additional funding received / year end savings for these purposes critical to the success of the MTFS. Proposed savings are further "smoothed out" and phased evenly at £2.0m p.a over the next 3 years (i.e. commencing 2024/25). General reserves are maintained over the period at not lower than £8m (assuming the £2.0m p.a. savings are achieved), providing a modest level of headroom to be able to respond to the risks associated with the future cost and funding uncertainty. With general reserves at proposed levels, savings of £2.0m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration, good progress towards the necessary savings will have been made.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	In order to finance sustainable delivery of strategic and statutory priorities, savings targets are developed and allocated to each portfolio of services by using a model which takes into account the strategic and statutory priorities of the Council. Priority is given to the statutory services in terms of a lower proportion of the savings and taken together with other budget allocations awarded often results in a net annual gain for these services. Strategic and statutory priorities like Adults and Children's social care accounts for 60% of council spending, therefore when there has been the opportunity to raise an additional council tax precept for Adult Social Care this has been taken and passported directly to the service to help ensure that service delivery can be sustained. Similarly, all grants relating to Adults and Children's services are allocated directly to those service areas. Central budget allocations are also held to mitigate for the risk of either savings not being achieved or unexpected and unavoidable demand in the statutory services.

Appendix A – Summary of arrangements

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities (continued)	The Star Chamber process also examines in detail cost pressures and estimated demand pressures that service areas are experiencing in particular around Adult Social Care and Children's Services. The data is subject to significant challenge and scrutiny and where the pressure is confirmed and determined will present a risk even after mitigation then this will be considered as growth to be built in to the MTFS. £7.6m of pressures were built into the MTFS for Adult Social Care in 2023/24. Additionally, the Council uses the outcome of the Budget Consultation to inform its spending priorities of both a revenue and capital investment nature.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	The Council's MTFS is consistent with the Corporate Plan. One of the primary objectives of the Corporate Plan is to achieve financial sustainability and deliver balance budgets. The integration of other plans also feature in the Council's approved MTFS. The capital programme is a key driver for the future financial sustainability of the Council, and this is recognised in the MTFS. The capital budget is developed in conjunction with the revenue budget each year. In terms of funding for the capital programme contributions from the revenue account are an important feature of the MTFS as other capital resources are very limited and without planning to support the programme in this way the Council would have insufficient resources to fund essential capital spend. Investment plans such as the regeneration programme has in recent years seen an approval for £25m of borrowing built into the capital programme to deliver on its regeneration plan for the Isle of Wight which in the longer term will lead to revenue income streams and improved economic conditions/opportunities. Borrowing costs associated with the regeneration schemes are factored into the revenue budget. Other local public bodies such as the NHS Trust and the Integrated Care Board (ICB) are also consulted via the Integrated Care Partnership Finance sub-group on council savings plans to understand if there is any likely financial impact on another part of the health and care system (and vice versa with health savings plans) and also to ensure that plans align in terms of objectives for the improvement of health and care on the Island. The Better Care Fund (BCF) is a jointly financed commissioning plan between the Council and the ICB which also ensures that there is alignment of objectives for social care and health. The on-going impact of the pandemic and the many financial challenges the Council has faced in this very fast changing situation, together with the uncertainty around Government funding until the Provisional Finance Settlement was announced in December. However, despite these challenges to being able to finalise a balanced budget for 2023/24 and reviewing and update the MTFS, a programme of work, overseen by the Executive Leadership Team, did continue throughout the year. Members have also been engaged in this process via Cabinet and Scrutiny committee meetings.

Appendix A – Summary of arrangements

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	A strong focus on financial management is embedded throughout the Council via a finance business partnering model which allocates dedicated financial staff resources to teams based on the risks of managing the budget due to demand challenges and the statutory nature of the service and the severity of the impact that any budget overspend may have on the Council. Through this dedicated team structure, the early identification of changes in demand/budget pressures is enabled and remedial action implemented as soon as possible. In the event that an in-year financial pressure cannot be contained within a portfolio then the Council has a corporate contingency budget and reserves to accommodate these events and other financial shocks. The Council also holds a level of "headroom" over and above the minimum level of General Reserves, the minimum level being £8m. In addition, the Council holds specific earmarked reserves for specific risks. Examples include a risk and insurance reserve, a repair and renewals reserve, a business rates reserve. The Council's budget plans (including the savings plan) are subject to scrutiny at the Star Chambers which will also test out the underlying assumptions and data about future demand. Key areas of the Council that are demand led such as Adult and Children's Social Care are subject to detailed budget planning each year where current/past trends are analysed and adjusted for estimated future changes to effectively re-set the care budget each year to align with the best estimate of demand and available resources. Early identification of pressures is key to maintaining financial resilience. Detailed risk registers are also held for every service area and reported regularly to Service Boards. The key risks to the Council are contained within the Strategic Risk Register which is also reported within the quarterly performance and finance reports to Cabinet and as a standalone report to the Audit and Governance Committee. The Strategic Risk Register includes two financial risks relating to the in-year achievement of the Council's budget and a risk relating to the achievement of the MTFS.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has a range of processes, policies and strategies to counter the risk of fraud including: a counter fraud strategy, codes of conduct for staff and elected members, comprehensive financial regulations, procurement rules, contract standing orders, policies governing gifts and hospitality, registers of interest, whistle blowing procedure, complaints procedure and on-going internal audit reviews. Internal Audit conduct audits annually which confirm that there are authorisation controls around accounting transactions and corrections which reduce the risk of fraud or error. The Audit and Governance Committee are also presented with quarterly updates from Internal Audit on its programme of internal audits which cover a broad range of operational areas. This gives the Committee the assurance of the effective operation of internal controls and includes reporting on areas of fraud detected. The Council also takes part in the National Fraud Initiative work. The Audit and Governance Committee receives an annual report on the incidence of fraud within the Council, which also informs them of the range of processes, policies and strategies which the Council has for identifying and responding to fraud or error. The Audit and Governance Committee has the opportunity to review the Council's draft accounts and reviews the Annual Governance Statement. Any weaknesses in the system of internal control would be highlighted in the Statement. The Council produces quarterly Performance, Finance and Risk reports which include the strategic risks for each portfolio, this is taken to formal Cabinet meetings after having been through the Corporate Scrutiny Committee.
How the body approaches and carries out its annual budget setting process	Each year the MTFS forecasts the savings requirement for a three-year period, so that work can begin on developing savings plans early in the budget process. The rolling Medium Term Financial Plan is refreshed each year taking into account a range of factors, including the latest assumptions about inflation, cost pressures (as identified by the budget monitoring process in-year but which are considered to be unavoidable and on-going), unachievable prior year savings, growth in demand, external pressures (such as increases in the national living wage which has a significant impact on care providers and therefore pressure for fee uplifts from the Council), changes in income levels from fees and charges (volume and price) and estimated changes in funding from government grants, council tax (tax base, proposed fee increases) and business rates.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process (continued)	All of these factors are considered in detail to arrive at a three-year forecast plus current year of expenditure against funding, the gap being the savings requirement over the next three years. The forthcoming year's total savings target is then either confirmed as the amount set in the previous budget or adjusted and then allocated as described above to each portfolio and a series of Star Chambers held to scrutinise the savings for deliverability and impact. A final list of indicative savings is then produced after budget consultation has been undertaken. This is a collaborative approach between senior officers and cabinet members. The process is a lengthy and detailed one commencing around July each year. The savings target is set for the forthcoming three years and therefore this gives the Council a significant amount of time to consider and plan not only the next year's detailed savings plan, but also the direction of travel required to be able to deliver the further two years savings.
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	The Council operates its financial management via a business partnering approach. Each Directorate has a dedicated team of finance staff assigned to it and led by a qualified and experienced accountant. The finance teams are involved in day to day financial operations of the service areas and are included in service management teams and attend a large range of service meetings from which they have developed a significant knowledge of the service areas enabling them to identify early any activity/demand trends that may lead to financial pressures in turn enabling corrective actions to be taken where possible. Service Board reports are produced and presented on a monthly basis which depending on the nature of the service include non-finance performance information e.g. number of clients in care to allow the service to build a fuller picture of activity and finance and the ability to identify changes in trends which may present a financial risk. The Service Board Reports therefore contain bespoke information for each service but also contain standard information for each Directorate including overall revenue budget forecast, progress of savings targets, key balance sheet items and progress on the capital programme. A monthly summary report is then produced consisting of the revenue forecast, capital programme and savings progress. This is presented to CMT and CLT whereby Directors will be held to account for the reasons for variances and the proposed plan of action. This provides for the opportunity to take remedial action such as the early creation of the Deficit Recovery Strategy in 2020/21 to address the particular financial pressures forecast due to COVID-19.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit and Governance Committee	The Council has a call over process whereby a panel of officers chaired by the monitoring officer and including legal, finance, democratic services and communications review and discuss all draft reports with the report authors prior to publication to ensure they are written in such a way as to comply with the Council's standards including clear options and evaluation of options leading to a recommendation that clearly states inter alia financial and legal implications to allow the decision maker to make a fully informed decision. Reports are presented to Scrutiny Committee in advance of decision at Cabinet Meetings to allow challenge and transparency and for Scrutiny to give any recommendations to Cabinet. Those decisions delegated to Cabinet Members or key officer decisions are published on the Council's website where required reports will be subject to consultation and an Equality Impact Assessment. The Monitoring Officer will also when needed, write reports to challenge and implement change. The Audit and Governance Committee provide effective governance by receiving a wide range of key reports including from external and internal audit, periodic reports on strategic risks, annual governance statement, statement of accounts, treasury management strategy and contract monitoring.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	The Council monitors compliance with legislative/regulatory requirements and standards in terms of officer or member behaviour through the appropriate involvement of legal officers, horizon-scanning of public interest reports to use to seek out best practice from where mistakes have occurred and reports from the Committee on Standards in Public Life and through deliver of training and advice notes. The review of member register of interests takes place periodically. The Monitoring Officer also provides guidance on issues such as elections (pre-election guidance) and the member protocol for the annual budget meeting. The Monitoring Officer will also advise on other issues as they arise such as the correct protocol for proposing amendments and guidance on motions of notice. There is a standing agenda item at each committee pertaining to any conflict of interest declarations that is needed to be made by the members or officers. Officers and Members of the Council also need to submit an annual declaration of interest which is also included on the Council's website. The accounts staff undertake a specific search of transactions and agreements to identify significant or unusual transactions to include in the annual accounts. The Council also sends an email to all members and key management staff requesting declarations of interests. Alongside this, the register of interests is a key source of information that underpins the Council's considerations of its related party disclosures. Following enactment of the Localism Act 2011, failure by Members of a council to comply with the requirement to register pecuniary and non-pecuniary interests is now a criminal offence.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	Financial and performance information is discussed regularly at Directorate Service Boards, CMT and Cabinet. This had led to changes in directorates' focus. Children's Services and Adult Social Care Directorates are the areas scrutinized by regulators and these have significant budget impacts. Children's Services: Financial Management reporting has activity and cost reporting across the children's social care elements of the budget, including monthly key driver activity, unit cost information, graphical trend analysis, and forward projection detail on key elements of the service. This includes activity and cost data for the high needs (special educational needs) element of the budget which is also a significant demand led part of Children's Services under increasing scrutiny both locally through Schools Forum and nationally. This core data in children's social care was enhanced with a pack of historic information and narrative, alongside financial impact of future service led transformation themes. Key data also referenced national and statistical neighbour performance metrics. The journey of continuous improvement for Children's Services was also mapped out in respect of inspections and this information alongside detailed demand and trend information was used in the presentation to the Star Chamber for Children's Services. These help shape the decisions for approved investment. Adult Social Care: Adult Social Care consider finance and performance information in depth at every Service Board. The analysis of information is instrumental in adopting the care closer to home strategy which shifted the focus from residential and nursing care where a considerable amount of the budget was being spent to keeping people in their own homes for longer. In hand with this was the drive to use personal assistants (PA) instead of agency based domiciliary care which can deliver considerable cost savings whilst improving the outcomes for the service users by maintaining continuity of carers. This in turn has led to a successful bid to the Transformation Fund for further development of the PA hub. As set out previously in this commentary routine reporting of performance is combined with financial monitoring in the Quarterly Performance and Finance Reports.
How the body evaluates the services it provides to assess performance and identify areas for improvement	As set out previously in this commentary, there are various considerations of how the Council evaluates the service and identify areas of improvement. These include the review of the Corporate Risk Register. The Council has engaged in a Corporate Peer Review to review and challenge the way it sets priorities, determines strategy and delivers its services in a financially sustainable way. Benchmarking takes place within many service areas to compare performance with national and statistical neighbours to identify where there are opportunities for improvement. At year end performance is measured in relation to the Corporate Plan.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	Each partnership is set-up on an individual basis and with individual terms of reference and objectives which will be monitored within the partnership by using action plans and the development of key metrics where applicable. Key strategic partnerships such as the Integrated Care Partnership have senior council representation including the Chief Executive who is the Executive Lead and the Director of Adult Social Care. In order to ensure that the Cabinet also have oversight of the activity of this board and are able to monitor its performance as key stakeholders, the minutes of this partnership board are presented to the Corporate Leadership Team meetings each month. Other key projects which may not have formal partnership arrangements are presented to a Members Board on a regular basis to give them oversight of progress against key milestones and to enable them to hold the project managers to account. The Integrated Care Partnership (ICP) has within its structure a Finance Sub-Group, which is made up of Senior Finance professionals from the Council, ICB and NHS Trust. The board has formal terms of reference to ensure it delivers its objectives and has formal structured meetings and action plans. The group reports back to the ICP on a regular basis to inform it of each organisation's financial position and on any specific tasks it may have been set. During 2021/22, the Council transferred its fire and rescue services to Hampshire Fire and Rescue (now Hampshire and IOW Fire and Rescue) along with all related property plant and equipment assets (£13.179m). This has been charged to the other operating expenditure line in the comprehensive income and expenditure statement and then reversed through the movement in reserves statement. There is therefore no impact on the amount to be raised through council tax. Also, all matters relating to firefighters' pensions became the responsibility of the new combined Fire Service from this date.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	In accordance with section 135 of the Local Government Act 1972 the Council has a set of contract standing orders (CSOs) that governs how the Council conducts procurement processes and awards contracts. The key principles of the CSOs are: (i) To achieve good value for money through appropriate market competition, so that we offer best value services to Isle of Wight residents; (ii) To be transparent to our residents about how we spend their money through our procurement processes; (iii) To ensure compliance with the legislation and regulations which govern the spending of public money; (iv) To ensure against any criticism or allegation of wrongdoing in the buying of goods and services or in the commissioning of works; (v) To support sustainability and social value objectives, the public sector equality duty, and encouraging local businesses on the Isle of Wight.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits (continued)	The Council has a procurement and contract monitoring team who oversees the Council's procurement activity and actively manages, alongside the lead commissioner, any procurement where the whole life value of the contract is over £25,000. This ensures compliance with CSOs and the Public Contract Regulations 2015 (where applicable) and other associated legislation such as the Public Services (Social Value) Act 2012. The Council runs an in-house procurement and contract management training programme which trains Council commissioners and contract managers in the following areas; procurement landscape, specification drafting, tender evaluations and contract management. This is designed to embed the knowledge and skills in relation to procurement and contracts within the commissioning services. The Council has a Contract Management Framework which has been developed to assist officers in setting robust contract performance monitoring regimes, managing relationships with suppliers and to provide a structure for recording contract compliance which can be reported to Senior Managers, Elected Members and other key stakeholders. To support the Contract Management Framework, the Council is in the process of rolling out a contract monitoring system which will be a central point for recording the performance of the Council's contracts. Reporting of the Council's procurement and contract activity is made on a 6 monthly basis to the Corporate Management Team and the Audit and Governance Committee. These highlight the contract management framework which is still new and still developing and monitors performance of all contracts.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: The Council does not, in all instances, record infrastructure assets within the fixed asset register on an individual basis. Although infrastructure assets are derecognised when fully depreciated, asset components are only derecognised from accounting records where the Council has sufficient information to do so and where there is a lack of information the Council processes a notional derecognition but this has not been applied consistently in previous years. This means the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.	Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.	Management agreed the recommendation, and committed to the Finance and Highways teams agreeing to investigating the potential for an approach to develop more granular accounting records and/or further supportable estimation techniques for the accounting for infrastructure assets.
Value for Money: None noted		

Appendix C – Fees
Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2021 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
The next page includes a summary of the proposed fees for 2021/22 in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no non-audit services which have been contracted and no written proposal to provide non-audit services has been submitted.

Appendix C – Fees – Isle of Wight Council

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

Our proposed fees for 2021/22 are set out below and subject to agreement with the S151 Officer and PSAA.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Total Audit Fee – Code work	98,602	98,602	98,602
Scale fee Rebasing: Changes in the work required to address professional and regulatory standards (1)	51,644	51,644	28,075
Revised Proposed Scale Fee	150,246	150,246	126,677
Change in risks, errors and other additional time incurred (2,3)	45,106	28,900	40,787
Scale fee variation – triennial pensions (4)	3,787	-	-
Non-audit work	-	-	-
TOTAL	199,139	179,146	167,464

All figures exclude VAT

1. As detailed in the our 2020/21 Audit Results Report, we submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. We have rolled this forwards for the purposes of the 2021/22 planned fee.
2. Starting from the 2020/21 audit, there were two new audit requirements which are not included in the initial scale fee. These were:
   (a) the introduction of the 2020 Code of Audit Practice and it's updated requirements for our Value for Money assessment.
   (b) ISA540 (revised) audit of accounting estimates – introducing updated requirements.

   PSAA communicated an expected range of fees for these new areas, and our work at Isle of Wight Council is towards the lower end of that range, i.e. £10,119 for VFM and £4,373 for ISA 540 (revised).

Appendix C – Fees – Isle of Wight Council (continued)

Fees

3. We have incurred additional time through internal specialists in areas of property and pension valuations as well as additional work on errors and amendments identified throughout the audit.
   - £9,981 – use of internal experts to verify property valuations
   - £807 – use of internal experts to review the IAS 19 pension liability
   - £7,289 – additional work performed to audit the accounting for infrastructure assets
   - £2,892 – additional work performed by the local team on the valuation of other land and buildings and assets held for sale
   - £5,250 – additional work undertaken to audit going concern disclosures and cashflow forecasts
   - £2,024- additional work undertaken to identify and audit the prior year adjustment relating to exit packages
   - £2,371 – other errors and amendments identified during the audit, including pension fund assets, coastal assets, and a number of misstatements and casting errors in the disclosure notes

4. As explained in Section 2 of this report, we have had to perform additional work over the pension balances within the accounts. This is due to an updated triennial valuation of the Pension Fund. The fee also includes delays experienced where either the evidence requested could not be provided and we needed to perform alternate procedures or the incorrect evidence was provided in the first instance.

Appendix C – Fees – Isle of Wight Pension Fund

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

Our proposed fees for 2021/22 are set out below and subject to agreement with the S151 Officer and PSAA where applicable.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Total Audit Fee – Code work	16,235	16,235	16,235
Scale fee Rebasing: Changes in the work required to address professional and regulatory standards (1)	40,956	40,956	12,406
Revised Proposed Scale Fee	57,191	57,191	28,645
Change in risks, errors and other additional time incurred (2,3)	10,117	5,900 – 6,900	5,869
Scale fee variation – triennial pensions (4)	8,777	-	-
Non-audit work	-	-	-
TOTAL	76,085	63,091 – 64,091	34,510

All figures exclude VAT

1. As detailed in the our 2020/21 Audit Results Report, we submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. We have rolled this forwards for the purposes of the 2021/22 planned fee.
2. Starting from the 2020/21 audit, there was a new audit requirements which are not included in the initial scale fee. This was:
   (a) ISA540 (revised) audit of accounting estimates – introducing updated requirements.

   PSAA communicated an expected range of fees for this new area, and our fee of £1,899 for the work at Isle of Wight Pension Fund is within that range i.e. £600 - £1,900.
3. We have incurred additional time through local team and internal specialists in areas of level 3 investment valuations resulting in additional fee of £7,218. There was an increased level of investment in Private Debt. The Fund also invested in Infrastructure assets for the first time in 21/22. We also incurred additional fee of £1k for our IAS 19 protocol procedures which we seek to agree directly with the S151 Officer.
4. As explained in Section 2 of this report, we have had to undertake additional membership data testing. This is due to an updated triennial valuation of the Pension Fund.

Appendix D – Certificate

Certificate

We received the 2021/22 Whole of Government Accounts (WGA) Group Audit Instructions as issued by the National Audit Office (‘NAO’) and we confirmed that the Council is under the threshold of £2bn for full audit procedures (threshold is consistent with 2020/21). However, the increase in HM Treasury’s local government threshold means that there is a risk the NAO WGA team might require some assurances from auditors of bodies below the threshold. At the date of this report, we have not been informed that the NAO has completed their sample selection for the 2021/22 WGA process. This does not prevent us from completing our audit report, but it will delay the issue of the audit certificate

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ED None

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