



Isle of Wight Council and  
Isle of Wight Pension Fund

Annual Audit Letter for the year  
ended 31 March 2020

January 2021



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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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.



Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Isle of Wight Council (the Council) and Isle of Wight Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
<b>Impact on the delivery of the audit</b>	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council/Pension Fund to deliver our audit in line with the revised reporting timescale.
<b>Impact on our risk assessment</b>	
▶ Valuation of Property Plant and Equipment and Investment Property	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuers. We consider that the material uncertainties disclosed by the valuers gave rise to an increased level of risk with regard to investment property valuations and a need to ensure appropriate disclosure of the uncertainty in the financial statements.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
<b>Impact on the scope of our audit</b>	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: <ul style="list-style-type: none"><li>• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li><li>• Agree IPE to scanned documents or other system screenshots.</li></ul>
▶ Consultation requirements	Additional EY consultation requirements were implemented concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you had put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report. We do however note that two objections were received in relation to the Council's financial statements. Our work to respond to these remains ongoing at the date of drafting this annual audit letter.

# Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office on our review of the Council's Whole of Government Accounts return.	We had no matters to report. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports were issued on 23 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We have not as yet issued our audit completion certificate. We have received two objections to the 2019/20 Council accounts from members of the public. We are currently assessing these objections and seeking legal advice as appropriate. We have been able to conclude that the objections raised do not impact our financial statement opinion or value for money conclusion. We have therefore issued our audit opinion and value for money conclusion, but are unable to issue our certificate until all objections are resolved.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work and in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic and their collaborative approach which enabled us to complete the 2019/20 audits by working remotely.

Helen Thompson  
Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities



# Purpose

## The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the 23 November 2020 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Pension Fund.

# Responsibilities

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plans that we issued on 16 March 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2019/20 financial statements including the pension fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

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

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

Section 3

# Financial Statement Audit



# Financial Statement Audit

## Key Issues

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

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 23 November 2020 Audit Committee.

The key issues identified as part of our audit of the Council and Pension Fund were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The Financial Statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach was as follows:</p> <ul style="list-style-type: none"><li>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.</li><li>• We reviewed accounting estimates for evidence of management bias.</li><li>• We evaluated the business rationale for any significant unusual transactions.</li></ul> <p>From the work completed, we did not identify:</p> <ul style="list-style-type: none"><li>• Any material weaknesses in controls or evidence of material management override.</li><li>• Any instances of inappropriate judgements being applied.</li><li>• Any other transactions during our audit which appeared unusual or outside the Council's or Pension Fund's normal course of business.</li></ul>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit of the **Council** were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>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.</p> <p>We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.</p> <p>The value of Property, Plant &amp; Equipment (PPE) additions in 2019/20 was £36m.</p>	<p>Our approach was as follows:</p> <ul style="list-style-type: none"><li>• We tested PPE additions using lowered testing thresholds, to ensure they were appropriately supported by documentary evidence, and that the expenditure incurred and capitalised was clearly capital in nature.</li><li>• When performing journals testing, we challenged the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.</li></ul> <p>From the work completed, we did not identify any instances of inappropriate capitalisation of revenue expenditure.</p>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit of the **Council** were as follows: (cont'd)

Significant Risk	Conclusion
<p>Valuation of investment properties</p> <p>The fair value of Investment Property (IP) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance 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.</p> <p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.</p> <p>Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.</p> <p>The value of IP in the draft accounts at 31/03/2020 was £33m.</p>	<p>Our approach was as follows. We:</p> <ul style="list-style-type: none"><li>• Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li><li>• Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer.</li><li>• Tested accounting entries have been correctly processed in the financial statements.</li><li>• Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty.</li><li>• Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.</li></ul> <p>We concluded as follows:</p> <ul style="list-style-type: none"><li>• No issues were identified through our work on investment property valuations, which was informed by a review of the valuation methodology and results by our internal specialists.</li><li>• No issues were identified through our consideration of the work of the Council's valuer, or through our review of accounting entries.</li><li>• The Council appropriately disclosed a material valuation uncertainty paragraph included by its valuer in their valuation report. We highlighted this disclosure by including an emphasis of matter paragraph in our audit report. This was not a modification of the audit report.</li></ul>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit of the **Pension Fund** were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of manipulation of investment income and valuation</p> <p>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 have assessed that the risk manifests itself through the manipulation of investment valuation and investment income.</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Undertook a review of reconciliations to the fund manager and custodian reports, and investigated any reconciling differences.</li><li>• Re-performed the detailed investment note using the reports we have acquired directly from the custodian and fund managers.</li><li>• Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.</li><li>• For quoted investment income, we agreed the reconciliation between fund managers and custodians back to the source reports.</li></ul> <p>We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.</p>	<p>We did not identify:</p> <ul style="list-style-type: none"><li>• any material weaknesses in controls or evidence of material management override.</li><li>• any instances of inappropriate judgements being applied.</li><li>• any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.</li></ul>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p>Valuation of Land and Buildings</p> <p>The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is 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.</p> <p>In our audit plan update in July, we noted that the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions. We have not amended our overall risk assessment for this type of asset, but have undertaken additional procedures as noted below.</p> <p>The net book value of PPE in the draft accounts at 31/03/2020 was £503m. The net book value of assets valued at existing use value was £47m.</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li><li>• Tested on a sample basis the accuracy of information used by the valuer in performing their valuations and challenged the valuer's key assumptions.</li><li>• 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.</li><li>• Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.</li><li>• Confirmed that accounting entries have been correctly processed in the financial statements.</li></ul> <p>Additional procedures on Existing Use Value assets:</p> <ul style="list-style-type: none"><li>• Considered the Council's asset base by type of asset and valuation methodology</li><li>• Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty.</li><li>• Obtained input from EY Real Estates, our internal specialists on asset valuations for a sample of EUV assets</li></ul>	<p>A material amount of Existing Use Value assets (£15m) were revalued in 2019/20. We therefore obtained inputs from our internal valuation specialists to assist with our work in this area.</p> <p>The review by our internal specialists included challenging the valuation methodology for EUV assets, and in particular the use of net/gross yields and the inclusion/exclusion of voids and purchaser costs within the calculations. The Council's valuer provided sufficient explanation for the approach which has been used.</p> <p>No other issues were identified from testing of land and buildings valuations.</p> <p>No further issues were identified through our consideration of the work of the Council's valuer, review of assets not revalued in 2019/20, or through our review of accounting entries.</p> <p>No issues were identified through our consideration of the sufficiency of disclosures concerning the material uncertainty</p>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p>Going Concern Disclosure</p> <p>Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p> <p>To gain assurance in this area we:</p> <p>We sought a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation, in light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support. Our audit procedures to review this included consideration of:</p> <ul style="list-style-type: none"><li>• Current and developing environment;</li><li>• Liquidity (operational and funding);</li><li>• Mitigating factors;</li><li>• Management information and forecasting; and</li><li>• Sensitivities and stress testing.</li></ul> <p>Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.</p>	<p>Our work on going concern assessed the disclosure to be sufficient and appropriate, and we concluded that an Emphasis of Matter paragraph was not required for our audit opinion.</p>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p>PFI Accounting</p> <p>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 2019/20, with a focus on any significant changes since the specialist's review.</p> <p>The total finance lease liability for PFIs was £101m at 31/03/2020, and the value of PFI assets was £130m.</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial model.</li><li>• Reviewed the PFI financial model for any significant changes.</li><li>• Ensured the PFI accounting model had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.</li><li>• Agreed outputs of the model to the accounts, and reviewed the completeness and accuracy of disclosures.</li></ul>	<p>We reviewed brought forward assurances, reviewed the PFI model for significant changes, and ensured appropriateness of any updates and consistency of current year model with the prior year. We also agreed the outputs of the model to the accounts.</p> <p>No issues with PFI accounting were identified from this work.</p>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p>Pension Liability Valuation</p> <p>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.</p> <p>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.</p> <p>The net pension liability in the draft accounts at 31 March 2020 was £169m (LGPS).</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. For 2019/20, this included engaging our internal pensions specialists to assist us with the review of amounts relating to the McCloud judgment, as a result of the methodology used by the actuary for this element of their calculations.</li></ul>	<p>As a result of our work, we agreed with management that the pensions liability estimate should be updated for an adjusting post-balance sheet event relating to the McCloud judgment. We involved our internal specialists in reviewing the updated information from the actuary to allow for this event, and concluded that the resulting figures in the final financial statements were materially correct.</p> <p>No other issues were identified from our work to address this risk.</p>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p data-bbox="129 411 555 437"><b>Business Rates Appeals Provision</b></p> <p data-bbox="129 459 1196 715">The Council 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 1 April 2017 and changes to the method of making appeals.</p> <p data-bbox="129 737 1039 762">The value of the business rates appeals provision at 31/03/2020 was £6m.</p> <p data-bbox="129 785 555 810">To gain assurance in this area we:</p> <ul data-bbox="129 826 1196 1109" style="list-style-type: none"><li data-bbox="129 826 936 852">• Understood the Council's approach to calculating the provision.</li><li data-bbox="129 890 1196 979">• Considered the work performed by the Council'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.</li><li data-bbox="129 1018 1196 1109">• Considered the Council's approach to establishing the provision against the 2017 list, whether this was appropriate to the Council, and whether the resulting provision was materially accurate.</li></ul>	<p data-bbox="1223 411 2110 571">We understood the Council's approach to calculating the business rates appeals provision, which for 2019/20 was to use the work of the external specialist for both the lists prior to 2017, and for the 2017 list. We also considered the work of the Council's specialist in calculating the provision for ratings lists prior to 2017.</p> <p data-bbox="1223 609 2110 667">No issues were identified with the provision from completion of our work to address this risk.</p>

# Financial Statement Audit (cont'd)

Other areas of focus for our audit of the **Council** were as follows: (cont'd)

Other Risk	Conclusion
<p>Minimum Revenue Provision</p> <p>Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The calculation of MRP is inherently complex.</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Used the completed outputs of the review undertaken in 2016/17 by our internal specialist of the Council's MRP calculations to inform our assessment of the material accuracy of the Council's MRP estimate and release of its historic overprovision in 2019/20.</li><li>• Considered any changes in the Council's approach to MRP since the review was completed.</li><li>• Considered the impact of changes in the Council's asset base on the MRP charge for the year.</li></ul>	<p>No changes to the Council's approach to calculating MRP in 2019/20 were identified. We used the completed outputs of the review undertaken by our specialist, and understood the impact of changes in the asset base on the current year MRP calculation.</p> <p>No issues were identified with the calculation of the minimum revenue provision from our work to address this risk.</p>

# Financial Statement Audit (cont'd)

## Other areas of focus for our audit of the **Pension Fund** were as follows: (cont'd)

Other Risk	Conclusion
<p data-bbox="129 416 456 448">Going Concern Disclosure</p> <p data-bbox="129 464 1205 687">There is presumption that the Fund will continue as a going concern. However, the current and future uncertainty presented by the Covid-19 pandemic increases the need for the Fund to undertake a going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we have requested evidence of the going concern assessment up to and including around November 2021.</p> <p data-bbox="129 703 1205 959">The draft accounts included a statement that the accounts had been prepared on a going concern basis. The Fund carried out an assessment of the impact of the Covid-19 pandemic on its income, expenditure, investment assets, cashflow as well as considering the recent triennial valuation. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We also discussed with management the need to make specific disclosures in the 2019/20 statements.</p> <p data-bbox="129 1007 1205 1133">The Fund's assessment focuses on the fact that the recent triennial valuation reported that it was 95% funded. The Fund's assessment also considered future cashflows and the potential impact of Covid-19. The Fund has used its assessment to derive an additional disclosure around going concern at Note 1 of the accounts.</p>	<p data-bbox="1218 416 2110 576">We reviewed the new going concern disclosure and are satisfied that it adequately reflects the Fund's assessment and informs the reader of the impact of the pandemic on the Fund. Due to the significance of the disclosure in the current environment we also consulted internally with our risk department over the level of disclosure.</p>

# Financial Statement Audit (cont'd)

## Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for the Council to be £3.87m (2019: £3.79m), which is based on 1% of gross revenue expenditure reported in the accounts.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality for the Pension Fund to be £11.2m (2019: £11.9m), which is 2% of net assets reported in the accounts of £561.7 million.</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences for the Council in excess of £0.193m (2019: £0.189m)</p> <p>We agreed a reporting threshold of £562k (2019: £600k) for the Pension Fund.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits:
- ▶ Related party transactions.
- ▶ We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money



# Value for Money

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

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

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements 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.

No new value for money risks have been identified from the two objections which were made to the Council's financial statements by local electors.

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

We therefore issued an unqualified value for money conclusion on 27 November 2020



# Value for Money (cont'd)

## Significant Risk

### Progress in achieving medium and longer term financial sustainability

The Council 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 meet a balanced budget, and in the medium term, the Council needs to achieve total further savings of £15 million in the period 2020/21 – 2023/24.

We noted in our value for money conclusion in 2018/19 and 2017/18 that good progress had been made across a number of key areas linked to the Council'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 2017/18 and 2018/19, which had allowed a strengthening of reserves, and that a balanced budget had been set for 2019/20.

However, our work in prior years acknowledged that the financial pressures facing the Council 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 ongoing value for money work that the Council faces potential additional financial challenges arising from recent developments, most notably with regard to Christ the King school.

As such, we judge that the significant risk to the Council's ability to deploy resources sustainably remains present in 2019/20. Our value for money work will therefore focus on the further progress made this year in strengthening the Council'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 did we do?

We:

- Reviewed the 2019/20 outturn against budget, and the consequent impact on the Council's reserves and wider financial position. This included understanding any significant new cost pressures arising in 2019/20, and any potential longer term impacts they may have.
- Reviewed the progress made in setting a balanced budget and identifying the required savings for 2020/21, and the robustness of underlying assumptions.
- Reviewed the further progress made against key elements of the Council's medium term financial strategy in 2019/20.

We note that our VFM conclusion is required to cover the period 1 April 2019 to 31 March 2020. As such, the period covered was not significantly impacted by Covid19. We have assessed the Council's arrangements in the period during the year on which the pandemic impacted (late March), and no new risks or need to modify our findings in respect of the risk from our audit planning report were identified.

# Value for Money (cont'd)

## Conclusion

The Council has continued to make progress against its medium term financial strategy in 2019/20.

The outturn position for 2019/20 was positive, allowing general reserves and reserves for capital investment to be strengthened. The Council achieved the majority of savings against identified schemes in 2019/20, with any shortfalls mitigated by savings elsewhere such that the overall position was a surplus against the Council's 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 2020/21 and the assumptions underpinning this and the accompanying refreshed 3-year forecast appear reasonable. All required savings for 2020/21 have been fully identified.

Good further progress has been made in 2019/20 against the key underlying elements of the Council's medium term financial strategy, including the 6 key "themes", and the establishment of a regeneration programme.

The legal proceedings in respect of Christ the King School were settled in the Council's favour. Whilst we note that the possibility of an appeal remains, the possibility of an adverse impact on the Council's financial position now appears significantly reduced.

We gave an unmodified value for money conclusion as a result of the work performed.

A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any audit procedures on the consolidation pack.

## Annual Governance Statement

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

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

## Report in the Public Interest

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

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

## Written Recommendations

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

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

# Other Reporting Issues (cont'd)

## Objections Received

We received two objections to the 2019/20 Council accounts from members of the public, which remain ongoing at the date of drafting this annual audit letter. The objections raised do not have an impact on our financial statement opinion or value for money conclusion.

## Other Powers and Duties

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

## Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 23 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

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

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Section 6

# Focused on your future



# Focused on your future - Council

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, following a recent further deferral announced in December 2020.	Whilst the adoption of IFRS 16 has been deferred for a further year, we encourage the Council to use that time to undertake a detailed exercise to identify all of its leases during 21/22 and capture the relevant information for them. The Council must ensure that all lease arrangements are fully documented.

# Focused on your future – Pension fund

As part of our initial planning for 2020/21 we have identified a number of factors that may impact the Isle of Wight Pension fund control environment.

New risk	Issue	Impact
Changes to the investment strategy	<p>At the Pension Fund committee meeting on 22 July 2020, members agreed to revisions to the fund's strategic asset allocation.</p> <p>The revised asset allocation included a 5% allocation into private debt and a 5% allocation into infrastructure assets. Both investments are likely to meet the fair value criteria of a 'level 3' asset.</p> <p>Assets and liabilities at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.</p> <p>Currently the pension fund have no assets which meet this criteria.</p>	<p>Level 3 assets are significantly more challenging to value than the current asset portfolio held by the pension fund.</p> <p>This will present an audit risk for the 2020/21 financial statements, but management will also need to assess whether their current control framework remains robust enough to prevent and detect a material misstatement in the valuation of these assets.</p> <p>Management assessment should include whether they are dedicating enough resources to the pension department to operate any changes to the current controls.</p>
Changes to the legislative framework – exit payment cap	<p>New legislation came into force on 4 November which restricted public sector exit packages to £95k. This includes any pension strain which is calculated under the LGPS rules which have not yet been amended.</p> <p>This will mean that councils could be faced, in certain circumstances, with an obligation under the LGPS rules to make a pension strain payment which exceeds £95,000 to an LGPS Fund to cover the cost of early retirement on redundancy, but, at the same time, councils are prevented by the Exit Pay Cap Regulations from making that payment.</p>	<p>Management will need to assess whether there has been any breach of regulation in 2020/21 and assess the impact of any breaches.</p> <p>We are aware from our discussions with management they have already sought legal advice on the situation.</p>
Ongoing impact of Covid-19	<p>The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will continue to have an impact in 2020/21 financial year.</p> <p>We have seen continued volatility in the financial markets most recently due to the announcement of a potential vaccine.</p> <p>England has also recently entered into a second lockdown for November 2020.</p>	<p>The Council staff are primarily working in a remote environment due to the impact of Covid-19. We are also aware that key staff have taken additional responsibilities in relation to the Council's response to Covid-19.</p> <p>Management need to assess whether the impact of Covid-19 has resulted in a diminution of the control environment for 2020/21, and whether additional resources are needed to maintain the operation of the current controls.</p>



Appendix A  
Audit Fees

# Audit Fees – Council

Our fee for 2019/20 is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee	98,602	98,602	98,602	98,984
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 38)	41,302			N/A
Revised Proposed Scale Fee	139,904			98,984
Covid 19 – Going Concern and consultation (1)	6,508			N/A
Covid 19 – increased property valuation risk (1)	6,318			N/A
IAS 19 – McCloud considerations (1)	1,780			N/A
2019/20 Objection (1)	21,817			N/A
Total Audit Fee	176,327			98,984

Note 1 - Please see next page for further explanation of these items.

# Audit Fees – Council continued

An additional scale fee of £36,423 has been applied to the planned fee based on the following items:

- The identification of Going Concern as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £3,728. An additional cost of £2,780 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts, and over the material uncertainty disclosed with regard to PPE and investment property valuations (see also next point).
- The identification of the Valuation of Investment Properties as a significant risk, and increased focus on valuations more generally, resulted in additional work, notably larger sample sizes to be tested. This additional time has been recorded at £3,002.
- As part of the significant risk work over Investment property valuation, and increased procedures over PPE valuation, we were required to engage with our internal valuations specialists, EY Real Estates, to test a sample of assets. Based on the number of hours charged by EYRE, the additional cost is £3,316.
- Additional work was required to understand the Council's Actuary's approach to the pension liability estimate calculation, in particular with regard to the McCloud judgment. As part of this, we needed to involve our internal pensions specialists in reviewing this aspects of the Actuarial estimate. The additional cost of this work is £1,780.
- We received two objections to the financial statements from local electors. Extensive work was required by the audit team and professional legal advisors to review and respond to the objections and to correspondence received in support of them from a number of other local electors. The additional costs incurred, including external legal fees, are currently £21,817.

These items are not included within the PSAA scale fee. They have been agreed with the Director of Finance but remain subject to agreement with PSAA.

# Audit Fees – Pension fund

Our fee for 2019/20 is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee	16,235	16,235	16,235	16,235
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 38)	32,765			N/A
Revised Proposed Scale Fee	49,000			16,235
Covid 19 – Going Concern and consultation (1)	3,437			N/A
Covid 19 – pooled property valuation (1)	570			N/A
Total Audit Fee	53,007			16,235
Other non-audit services not covered above (IAS 19 & triannual revaluation) (2)	3,803			-

Note 1 - These items are not included within the PSAA scale fee and will be subject to agreement with the Director of Finance and then PSAA where appropriate.

Note 2 - These items will be subject to agreement with the Director of Finance

# Audit Fees – Pension Fund continued

An additional scale fee of £4,007, and other non-audit services of £3,803, have been applied to the planned fee based on the following items:

## Scale fee variation

- Due to the impact of Covid-19 we performed additional work on management's Going Concern assessment including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £1,814. An additional cost of £1,623 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts, and consideration of the material uncertainty disclosed with regard to Pooled property investment (see also next point).
- In March 2020 the pooled property fund manager suspended trading of units in the fund due to their valuer attaching a 'material uncertainty' clause to the valuation of the property in the fund. The suspension of trading resulted in additional work to verify the value of the holding in the pension fund accounts was not materially misstated as well as considering the adequacy of the disclosure. This additional time has been recorded at £570.

## Other non-audit services

- In 2019/20 Isle of Wight Pension Fund underwent a triennial valuation. The triennial valuation requires us to perform additional procedures to provide sufficient assurance over the IAS 26 disclosure in the Pension Fund accounts, and the IAS 19 entries in Isle of Wight Council's accounts. This included verifying a sample of member data provided to actuary to base date. This additional time has been recorded at £3,008
- In addition to the work required for the triennial valuation we also perform procedures on the cashflow data provided to the actuary each year. The work is not part of our opinion of the financial statement of the pension fund. This additional time has been recorded at £795.

These items are not included within the PSAA scale fee. They have been agreed with the Director of Finance but remain subject to agreement with PSAA.

# Audit Fees continued

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 9 June 2020

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

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