



## **Isle of Wight Council**

**Draft Auditor's Annual Report  
Year ended 31 March 2021**

22 November 2021



**EY**

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# Contents

<b>Section</b>	<b>Page</b>
<b>01 - Executive Summary</b>	<b>02</b>
<b>02 - Purpose and responsibilities</b>	<b>05</b>
<b>03 - Financial statements audit</b>	<b>07</b>
<b>04 - Value for Money</b>	<b>16</b>
<b>05 – Other reporting issues</b>	<b>32</b>
<b>Appendix 1 – Fees</b>	<b>35</b>

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.psa.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.

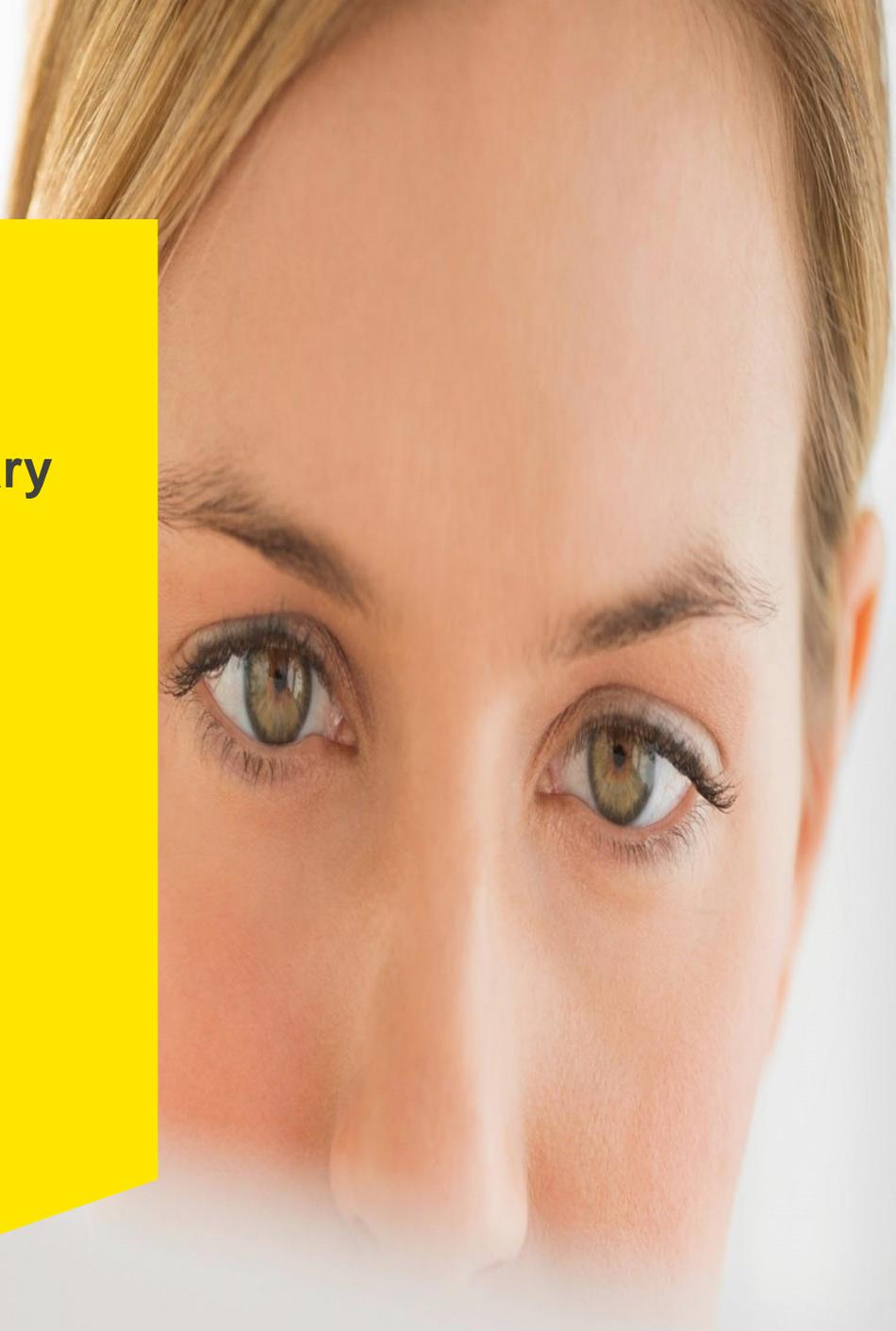
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Isle of Wight Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Isle of Wight Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee 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.

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: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	<p>We expect to issue an unqualified opinion – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.</p> <p>We plan to issue our auditor's report in the week commencing 6 December 2021.</p>
Going concern	We expect to conclude that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We expect to conclude that financial information in the Statement of Accounts 2020/21 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	We expect to conclude that financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We expect to have no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	We expect to conclude that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We expect to have no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued a preliminary Audit Results Report dated 15 September 2021 to the Audit Committee on 27 September 2021. We will issue an updated Audit Results Report to the 6 December meeting of the Committee.
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 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued, and is not expected until December 2021 at the earliest.

## 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)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Director of Finance. We include details of the audit fees in Appendix 1.

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



Helen Thompson

Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **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 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 2020/21 audit work in accordance with the Audit Plan that we presented to the Audit Committee on 26 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

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, and governance statement. It 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 – Isle of Wight Council

We expect to issue an unqualified audit opinion on the Council's 2020/21 financial statements.

## Key issues

The Annual Report and 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 expect to issue an unqualified opinion on the financial statements. We reported our initial detailed findings to the 27<sup>th</sup> September meeting of the Audit Committee and will issue an updated Audit Results Report to the 6<sup>th</sup> December meeting of the Committee. 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.

## Significant risk

## Conclusion

### Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.

### Inappropriate capitalisation of 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. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

In response to the risk we:

- Tested capital additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

In undertaking this testing we focused on the judgements taken by management.

Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Continued over.

## Financial Statement Audit – Isle of Wight Council (continued)

Significant Risk	Conclusion
<p><b>Valuation of investment property and operational land and buildings valued at Existing Use Value (EUV)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>As at 22 November 2021 our work in this area is largely complete with no significant findings. However, during our testing of car park valuations we encountered challenges in agreeing the number of car park spaces used in the valuers report to the evidence provided by the Council, i.e. the Directorate of Neighbourhood's 2019-20 Annual Parking Report as there were a number of discrepancies. We took assurance that the independent valuer physically verified the number of spaces during the valuation exercise, providing independent evidence, and we considered whether the discrepancies identified in the Annual Parking Report would result in material misstatement in respect of the car park valuations. We concluded that we had sufficient assurance. However, we recommend the Council reviews the accuracy of the information within the Annual Parking Report, including comparing it with the valuation report, and any anomalies are investigated</p> <p>Furthermore, we are currently reviewing the report from our internal property specialists on a sample of assets they have reviewed and will provide a verbal update to the Committee on the outcome of this review.</p>

# Financial Statement Audit – Isle of Wight Council (continued)

Other area of audit focus	Conclusion
<p><b>Valuation of operational land and buildings valued at Depreciated Replacement Cost (DRC)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. As with land and buildings valued at EUV, the valuation is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. These assets are not subject to the same level of material uncertainty arising due to market conditions as with EUV. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>As at 22 November 2021 our work in this area is largely complete with no significant findings. We are currently reviewing the report from our internal property specialists on a sample of assets they have reviewed and will provide a verbal update to the Committee on the outcome of this review.</p> <p>There is one issue from the work undertaken to date that we wish to draw to your attention. During 2020-21, the Council has recognised a net loss of £9.404 million in relation to the disposal or derecognition of property, plant and equipment. The principal loss (£5.010 million) relates to the freehold of a voluntary controlled primary school being transferred to the Portsmouth Diocese by the means of an asset swap following a rebuild in a prior year. It was not appropriate to derecognise this asset as the Council is still deemed to control this asset. Management has agreed to reverse these entries.</p>
<p><b>Private Finance Initiative (PFI)</b></p> <p>The Council has one material PFI arrangement. PFI accounting is a complex area and therefore more susceptible to error, and a detailed review of these arrangements was undertaken by our internal expert in 2013/14.</p>	<p>Based on our work we are satisfied that:</p> <ul style="list-style-type: none"> <li>• Inputs to the PFI model was supported by evidence.</li> <li>• The model continued to operate correctly.</li> <li>• Output from the model was correctly reflected by the relevant accounting entries and disclosures in the financial statements.</li> <li>• PFI assets were correctly accounted for and disclosed.</li> </ul>
<p><b>Pension liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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>We obtained assurances from the auditors of Isle of Wight Pension Fund that the information supplied to the actuary in relation to Isle of Wight Council was accurate and complete.</p> <p>We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Hymans Robertson.</p> <p>We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.</p> <p>Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.</p> <p>No adjustments were required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets submitted to Hymans Robertson and the final audited value of Pension Fund assets in its 2020/21 financial statements.</p>

Continued over.

## Financial Statement Audit – Isle of Wight Council (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>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.</p>	<p>Management produced a going concern assessment to the end of December 2022. This was supported by cash flow forecasts and general fund reserves analysis modelling three reasonable scenarios, i.e. central, best and worst case. We reviewed and challenged the cash flow forecasts and the assumptions that underpinned them. 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.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Based on our work we were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p> <p>Based on our own assessment and intelligence gained from other audits we further challenged the Council's assessment that it acts as predominantly as an agent in its role in administering the Adult Social Care Infection Control Grant. At the time of our challenge management had classified this grant as 80% agent and 20% principal but we subsequently agreed that this grant should be treated entirely as principal as the Council has the authority to take alternative approaches to allocate the funding. The necessary amendments were made prior to submission of the draft accounts.</p>

# Financial Statement Audit – Isle of Wight Council (continued)

## Audit differences

Other than a relatively small number of errors and misstatements in disclosures which management corrected, we identified a disposal that management had incorrectly derecognised. This related to a freehold of a voluntary controlled primary school being transferred to the Portsmouth Diocese by the means of an asset swap following a rebuild in a prior year which resulted in a loss of £5.010 million. The derecognition was not appropriate as the Council still exercises control since it's a voluntary controlled school and hence should continue to be recognised on the Council's balance sheet as an asset. Management subsequently reversed these entries.

## 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
<b>Planning materiality</b>	We determined planning materiality to be £5.079m as 1.3% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.254m.

We also set specific materiality of £2,500 for remuneration disclosures, related party transactions, members' allowances and exit packages disclosures appearing in the financial statements. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas. This specific materiality is based on 1% of our audit differences threshold.

# Financial Statement Audit – Isle of Wight Pension Fund

## Key issues

We expect to issue an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

The Annual Report and 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 expect to issue an unqualified opinion on the Pension Fund financial statements. We reported our preliminary findings to the 27 September meeting of the Audit Committee. 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.

Significant risk	Conclusion
<p><b>Risk of manipulation of investment income and valuation</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We assessed that the risk of manipulation of investment income and valuation through management override of controls is most likely to affect investment income and assets in the year, specifically through journal postings.</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; and</li><li>• any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.</li></ul> <p>Our journals testing confirmed there were no unusual or unexpected postings.</p> <p>We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.</p>

## Financial Statement Audit – Isle of Wight Pension Fund (continued)

Other area of audit focus	Conclusion
<p><b>Valuation of level 3 investments</b></p> <p>We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"><li>• reviewed the latest available audited accounts for the relevant funds and ensuring there are no matters arising that highlight weaknesses in the fund's valuation.</li><li>• where the latest audited accounts were not as at 31 March 2021, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations.</li><li>• tested that accounting entries were correctly processed in the financial statements.</li></ul> <p>The private debt fund last audited financial statements were at 31 December 2020. We evaluated those financial statements to gain assurance that:</p> <ul style="list-style-type: none"><li>• The audit report was not qualified or otherwise modified.</li><li>• The audit report did not contained material uncertainties in respect of going concern and that there were no other matters emphasised that would impact valuation.</li><li>• The audit report was issued by a reputable auditor.</li></ul> <p>To gain assurance over the valuation of level 3 investments at the Net Asset Statement date of 31 March 2021, we</p> <ul style="list-style-type: none"><li>• Agreed the pension fund investment in Q4 to bank receipt</li><li>• Performed an analytical review on the movement to the balance sheet date.</li></ul>
<p><b>Going concern</b></p> <p>There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund was required to carry out a going concern assessment that is proportionate to the risks it faces. The Fund was required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it identified.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• Assessed the adequacy of disclosures required in 2020/21.</li><li>• Obtain management's going concern assessment and reviewed for any evidence of bias and consistency with the accounts.</li><li>• Reviewed the financial modelling and forecasts prepared by the Pension Fund.</li><li>• Ensured that an appropriate going concern disclosure has been made within the financial statements.</li></ul> <p>We had no issues to bring to your attention.</p>

## Financial Statement Audit – Isle of Wight Pension Fund (continued)

### Audit differences

We did not identify any errors or misstatements.

### 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
<b>Planning materiality</b>	We determined planning materiality to be £6.95m as 1% of net assets reported in the accounts. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.
<b>Reporting threshold</b>	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.35m.

Section 4

## Value for Money



# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 26 July 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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

## Reporting

We expect to complete our planned VFM arrangements work in the week commencing 6 December 2021 and not to identify any significant weaknesses in the Council's VFM arrangements. As a result, we expect to have no matters to report by exception in the audit report on the financial statements.

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

## VFM Commentary

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

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks.
- 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.

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

*How the body ensures that it identifies all significant financial pressures that are relevant to its short term 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 is also 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 Corporate Management Team (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.

## Financial sustainability (continued)

The Covid-19 pandemic had a significant impact on Council operations, services and finances in 2020/21. This will continue to have a significant effect into 2021/22 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 2021/22), a COVID Fund of £14.2m has been established 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.

Despite the impact of Covid-19 the Council was able to deliver a revenue underspend of £4.163m on portfolio budgets in 2020/21. This underspending has been transferred reserves, including £3.1m to the Revenue Reserve for Capital to support future Capital Investment needs.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The closing financial position of the Council has also improved. Overall, the Council's usable reserves increased by £1.4m compared to the prior year. Significant budget gaps remain in the last iteration of the MTFs produced in February 2021, a forecast for the 3 year period beyond 2021/22 will require a further £9.0m in savings or £3.0m per annum (from £3.5m per annum previously).

Delivery of the capital programme has been affected by the pandemic with spending totalling £27.632m for the year, against an updated capital programme of £38.967m approved in February 2021, a total variation of £11.335m or 29%, this variation being slippage as opposed to underspending. Looking forward, the Council's Capital Strategy for the period 2021/22 to 2025/26 was approved by full Council in February 2021, and within that the five-year Capital Programme. The total value of schemes in the 2021/22 to 2025/26 capital programme is £131.5m. The capital programme is ambitious, reliant on additional borrowing and partly designed to generate recurrent benefits to minimise pressures on the revenue budget. Ensuring that it is delivered therefore remains important.

### 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

## Financial sustainability (continued)

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.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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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 £86m of savings had been delivered at the end of 2020/21 since 2011. However, in 2019/20 the Council failed to deliver £1.5m (28%) of its planned savings. The budget for 2020/21 assumed savings of £4.5m. This target was exceeded with £5.1m savings being achieved, even though there were significant adverse variances within Adult Social Care and Parking Charges. This demonstrates the ability of the Council to achieve planned savings targets. The failure to deliver against target in these areas within Adult Social Care and all planned savings within Infrastructure & Transport) were due to Covid-19, related national lockdowns and the need to act on a responsive basis to the service delivery and other operational challenges brought about by the pandemic. The Council considers that the majority of the shortfall in savings at the end of 2020/21 was mitigated by the use of Covid-19 grant funding. £18.8m of unutilised Covid-19 grant funding at the end of the year was carried forward into 2021/22 to fund the continuing costs of the pandemic. Given the reported impact of Covid-19 on the Council's ability to deliver planned savings in these areas this is likely to be a necessary funding source to contain 2021/22 revenue spending within budget.

The new forecast for the new 3 year period (now extended to 2024/25) is a £9.0m deficit. The new forecast is subject to unprecedented uncertainty due to the longer term impact of COVID-19, the forthcoming Multi Year Spending Review, Fair Funding Review and the Business Rate Retention Scheme review; the forecast could vary by +/- £3m. 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 £3.0m p.a over the next 3 years (i.e. commencing 2022/23). General Reserves are maintained over the period at not lower than £8m (assuming the £3.0m 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 £3.0m p.a. ensure that for any improvement in the

## Financial sustainability (continued)

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.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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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.

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. £4m of pressures were built into the MTFS for Adult Social Care in 2021/22.

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

## Financial sustainability (continued)

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.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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Other local public bodies such as the NHS Trust and the Clinical Commissioning Group (CCG) 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 CCG which also ensures that there is alignment of objectives for social care and health, more so now due to Covid-19.

The impact of the pandemic and the many financial challenges IOWC 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 2021/22 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.

### *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 £7m. In addition, the Council holds specific Earmarked Reserves for specific risks. Examples include a Risk and

## Financial sustainability (continued)

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 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. In addition, in 2020/21 there was an additional detailed section relating to the financial risk of COVID-19.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Governance

### How the body monitors and assessed 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.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Audit 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 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 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 large 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.

## Governance (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.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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*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

## **Governance (continued)**

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.

*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 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.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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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 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.

## **Governance (continued)**

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.

We have discussed the maintenance of registers with the finance team and have confirmed that accountancy staff considered the parties as part of the closedown process for 2020/21.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Improving economy, efficiency and effectiveness**

### *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. During 2020, this activity and cost data has been expanded into 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. In September 2020 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. These help shape the decisions for approved investment.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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#### 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, we have documented 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.

## **Improving economy, efficiency and effectiveness (continued)**

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.

*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.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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The Integrated Care Partnership (ICP) has within its structure a Finance Sub-Group, which is made up of Senior Finance professionals from the Council, CCG 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.

*Where the body commissions or procures services, how the body ensures that this 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;

## **Improving economy, efficiency and effectiveness (continued)**

- (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.

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.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers 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.

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Reporting of the Council's procurement and contract activity is made on a 6 monthly basis to the Corporate Management Team and the Audit Committee. These highlight the contract management framework which is still new and still developing and monitors performance of all contracts.

During the year under review, as part of our value for money procedures we also undertook a 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 costs associated with the floating bridge in 2017/18 and 2018/19 as part of our value for money conclusion. Much of the cost was met by a grant from the Solent Local Enterprise Partnership (LEP) rather than the Council at that point in time. For the current arrangements we gained an understanding of the detailed costs incurred by the Council, and in which years, and the status of the ongoing legal proceedings. The Council is currently going through a mediation process with the contractors involved to recover the costs incurred that the Council has had to bear.

The Council is monitoring the costs incurred which relate to the design/build faults and these are being reported to a Strategic Programme Board to ensure that adequate governance and oversight is maintained. Furthermore, the Council has

## **Improving economy, efficiency and effectiveness (continued)**

gone over the procurement process that they undertook at the time and concluded they were satisfied with the procurement arrangements in place at the time. There was also an external review commissioned by the Council which did not find any significant faults in the procurement contract and process. We are also aware the Council is taking action against the contractors to ensure that it obtains the expected benefits from these contracts.

We have updated our understanding of the Council's position, particularly with regards to the costs incurred and rationale for them, and we have not identified any significant weaknesses in these arrangements. Whilst the costs incurred by the Council on the floating bridge has been significant, they are below our performance materiality. We have therefore concluded there was no risk of significant weakness in the Council's arrangements.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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Section 5

## Other Reporting Issues

# Other Reporting Issues

## **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 complies with relevant guidance.

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

## **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

## **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.

## **Other powers and duties**

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

## Other Reporting Issues (cont'd)

### **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 approach and have therefore not tested the operation of controls.

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

Appendix A

## Audit Fees



## Audit Fees – Isle of Wight Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	98,602	98,602	98,602
Planned 2019/20 recurrent fee variation reflecting the underlying level of additional risk at the Council yet to be agreed by PSAA (See Note 1)	41,302	41,302	41,302
Revised Proposed Scale Fee	139,904	139,904	139,904
Risk based fee variations (see Note 2)	TBC	TBC	34,799
Fee for work on the objection received on the 2019/20 financial statements (see Note 3)	N/A	N/A	23,817
<b>Total Fees</b>	TBC	TBC	198,520

**Note 1** - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £41,302 to deliver the audit in 2019/20 which we expect to reoccur in 2020/21 and subsequent years. We did not reach agreement with management. 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. The proposed recurrent fee variation is currently with PSAA for a decision.

**Note 2** - The 2019/20 risk based fees have been agreed with the Director of Finance. They have not yet been approved by PSAA. We are yet to fully quantify 2020/21 risk based fee variations and agree them with the Council. We will provide an update in due course.

**Note 3** – Additional fee will be charged for the work undertaken in relation to the objection received on the 2019/20 financial statements. This work is always a change in scope that is not considered as part of the scale fee and includes legal fees of £17,552.

## Audit Fees – Isle of Wight Pension Fund

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	16,235	16,235	16,235
Planned 2019/20 and 2020/21 recurrent fee variation reflecting the underlying level of additional risk at the Fund (see Note 1).	-	32,765	-
Revised Proposed Scale Fee.	16,235	49,000	16,235
Risk based fee variations (see Note 2).	TBC	5,000 to 7,000	15,999
Additional fee for IAS19 assurance work on behalf of admitted bodies & triennial valuation (see Note 3).	TBC	500 to 1,000	3,803
<b>Total Fees</b>	TBC	54,500 to 57,000	36,037

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £32,765 to deliver the audit in 2019/20 which we expected to reoccur in 2020/21 and subsequent years. This additional fee was not agreed by the Director of Finance, although the pressures on fee were recognised. PSAA has determined that 2019/20 fee variations will not be accepted on a recurrent basis. The recurrent fee proposal is therefore not reflected as part of the final fee in either 2019/20 or 2020/21.

Note 2 - The proposed 2019/20 risk based fees had been agreed with the Director of Finance and Support Services and totalled £4,007. PSAA has determined that a total of £15,999 should be paid in respect of the recurrent and non-recurrent fee variations submitted. As set out in Note 1 this amount has been determined on a non-recurrent basis. The proposed fee for 2020/21 is to be confirmed and we will update the Audit Committee in due course.

Note 3 – In 2019/20 we charged £3,803 for IAS 19 assurance work on behalf of admitted bodies and additional work on the 2019 triennial valuation of the Fund relevant to the 2019/20 year. Our proposed fee for IAS 19 assurance work in 2020/21 is in the range of £500 to £1,000. These fees are agreed by the Director of Finance and do not require approval by PSAA.

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