

Annual Governance Report

July 2006



# Annual governance report

**Isle of Wight Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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# Contents

<b>Purpose of this report</b>	<b>4</b>
Scope of the report	4
<b>Key messages</b>	<b>6</b>
Financial statements	6
Use of resources	6
<b>Financial statements</b>	<b>7</b>
Status of the audit	7
Matters to be reported to the Audit Committee	7
Next steps	11
<b>Use of resources</b>	<b>14</b>
Value for money conclusion	14
<b>Closing remarks</b>	<b>17</b>
<b>Appendix 1 – Audit responsibilities and approach</b>	<b>18</b>
Audit objectives	18
Approach to the audit of the financial statements	19
Approach to audit of arrangements to secure value for money	19
<b>Appendix 2 – Audit reports issued</b>	<b>21</b>
<b>Appendix 3 – Fee information</b>	<b>22</b>
<b>Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>23</b>
<b>Appendix 5 – Independent auditor’s report to the Isle of Wight Council</b>	<b>24</b>
Opinion on the financial statements	24
Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources	26
Best Value Performance Plan	27
<b>Appendix 6 – Letter of representation</b>	<b>29</b>
<b>Appendix 7 – Action Plan</b>	<b>32</b>

## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete but there are two areas of potential qualification in respect of which we are required to carry out further work in order to inform our final audit judgement:
  - data quality
  - asset management
- 11 We anticipate being able to issue our conclusion on the use of resources by 30 September 2006. An unqualified conclusion is subject to the satisfactory outcome of the final stages of our review of the Council's data quality arrangements which is currently in progress and our assessment of the Council's asset management arrangements. (a draft report is attached at Appendix 5).

## Financial statements

- 12 We are required to give an opinion on whether the Authority's financial statements present fairly:
- the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and
  - the financial transactions of its Pension Fund during the year ended 31 March 2006 and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

## Status of the audit

- 13 Our work on the financial statements is now substantially complete.

## Matters to be reported to the Audit Committee

- 14 We have the following matters to draw to the Audit Committee's attention.

### Expected modifications to the auditor's report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

### Uncorrected misstatements

- 16 There are no material misstatements in the financial statements that management has decided not to adjust (excluding those that are 'clearly trivial', as defined in professional auditing standards).

### Adjusted misstatements

- 17 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that management has adjusted, in Table 1. A complete listing of all amendments has been provided to officers.

**Table 1 Adjusted misstatements in the financial statements**

Details of material and significant adjustments made to the financial statements.

<b>Issues</b>	<b>Value of misstatement £</b>	<b>Impact on surplus/ (deficit) £</b>
There was a balancing item in the Cash flow statement which the Council analysed further following audit investigation. The Council subsequently revised its cash flow statement following its investigation into balancing items.	1,003,000 (total revisions of £11m)	None
The draft accounts contained no reference to the value and level of severance payments by made the council in 2005/06. To encourage openness and accountability, further disclosures were made to reflect the volume and cost of severance payments made in 2005/06, with subsequent comparative data also provided for 2004/05.	Disclosure only	None
Audit investigations into asset disposals identified that the draft accounts did not include any shared ownership properties. A review by the council identified 67 shared ownership properties which have subsequently been included in the 2005/06 accounts with additional narrative to support their inclusion.	1,250,157	None
A review of the Consolidated Revenue Account identified an error in reporting the Council's Asset Management Revenue Account. The accounts were subsequently amended to include the Minimum Revenue Provision within the Appropriations Section of the Consolidated Revenue Account.	3,638,533	None
The Balance Sheet has been amended to separately report on non-operational assets which had previously been incorrectly reported as operational assets.	900,000	None



### Qualitative aspects of accounting practices and financial reporting

- 18 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We wish to report the following matters to you.

#### Statement of Internal control

- Improvements have been made this year in the Council's approach to controls self assessment which underpins the Statement of Internal Control demonstrating a stronger engagement by both members and management in the process and fuller reporting of control issues and planned action to address identified weaknesses.

#### Accounting arrangements

- The quality of the accounts and working papers presented for audit is satisfactory and we are pleased to note that there has been improvement in a number of areas in the current year. Of particular note is the quality of the Council's capital accounting where there has been good improvement in the arrangements for producing capital accounts. Work is ongoing to strengthen capital accounting arrangements further.

#### **Recommendations**

*R1 Ensure that planned improvements in capital accounting are fully implemented by the 31 March 2007.*

#### Levels of reserves and balances

- During the year movements in the Council's reserves and balances did not mirror the Council's medium term financial plans although there were good reasons why this was not the case including in year changes to the Council's corporate priorities. The Council has since re-aligned its financial plans to match changing corporate priorities which involved a review of the level of its reserves and balances and its funding requirements for the future. Nevertheless at the 31 March 2006 overall reserves held by the Council totalled £31m compared with planned levels of £22m.
- A significant part of this difference is the result of timing issues for example slippage in the capital programme and deferred expenditure for which we have received satisfactory explanations. However, the difference is also due in part to changes in assumptions which need to be closely monitored and kept under review by the Council to avoid further divergence between the medium term financial plan and the entries in the accounts and ensure that decisions on the allocation of resources are properly made.

### **Recommendations**

*R2 Continue to review the level of reserves and balances and ensure that these are consistent with future funding requirements and corporate priorities.*

### **Non-compliance with legislative or regulatory requirements and related authorities.**

- 19 The Council has sought its own legal advice in respect of a number of severance payments made during the year which it has now received and is considering. We will be reviewing this as part of our ongoing audit and will report any relevant issues to members at a subsequent stage.
- 20 We are unable to certify closure of the audit until this matter is concluded

### **Other matters specifically required by other auditing standards**

- 21 Other auditing standards require us to communicate with you in other specific circumstances, including:
- Material weaknesses in internal control identified during the audit. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed. We have identified improvements to controls but they are of not a material nature to bring to the attention of the members.
  - Matters specifically required by other auditing standards. Other auditing standards require us to communicate with you in other specific circumstances, including
    - where we suspect or detect fraud;
    - in respect of members' conclusion that the Council is a going concern;
    - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and,

We have no other matters to draw to your attention.

## Any other matters of governance interest

- 22 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 3 below.

### Table 2 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	The SIC complies with the requirements of proper practice and is consistent with other information from the audit of the financial statements
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	Our audit of the consolidation pack is currently in progress. If any matters arise from this requiring the attention of those charged with governance we will communicate them separately.

### Letter of representation

- 23 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

### Next steps

- 24 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.





## Use of resources

### Value for money conclusion

- 25** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 26** We have substantially completed our work in relation to the use of resources conclusion except for the final phase of our review of the Council's data quality arrangements which is currently in progress and our assessment of the Council's asset management arrangements.
- 27** Subject to the outcome of this remaining work our report may include a value for money conclusion qualified because the Authority did not put in place arrangements to monitor the quality of its published performance information and /or put in place arrangements for the management of its asset base. In all other respects the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 28** In particular our work identified a number of aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources which we assessed as being below minimum requirements. Improvement opportunities were identified in the arrangements for:
- monitoring the quality of published performance information;
  - monitoring and scrutinising performance
  - managing its asset base

### Data Quality

- 29** The Authority's data quality arrangements were found to be below minimum requirements in two out of the five areas assessed as part our audit. Other areas of Governance and leadership, systems and processes and arrangements for data usage were considered to be at minimum requirements but with a number of improvement opportunities.

- 30 The key weak areas were the absence of a data quality policy framework and an appropriate approach to developing data quality skills within the organisation. Urgent action is recommended to strengthen these aspects of its arrangements as well as responding to the need to strengthen data quality arrangements overall.
- 31 Failure to do so places the Authority at risk of basing decisions on inappropriate or erroneous information or providing information to external bodies which is potentially misleading. At worst it could undermine the integrity of the developing performance management arrangements if these are not established within a robust data quality framework.
- 32 In arriving at our assessment we applied the key lines of enquiry issued recently by the Audit Commission. Officers have commented that as they have not been allowed sufficient time to review their existing arrangements against these published performance standards and respond accordingly then gaps revealed by the audit assessment will be inevitable. This is not a view that we hold. Good practice authorities will already have many of these elements in place and will use the Audit Commission guidance as benchmarks against which existing arrangements can be measured rather than targets to which they might aspire.
- 33 Our detailed testing of the Authority's published performance information is continuing and this will determine our overall conclusion on these arrangements.
- 34 We will set out our recommendations for improvement in a separate report to the Authority.

## **Performance management**

- 35 The last twelve months has been an unsettling time for the Council in relation to performance management arrangements as existing systems and processes have been suspended and replaced by new and developing arrangements. One area that has suffered as a consequence of these changes is member level scrutiny and the role of members in monitoring and scrutinising the performance of the Council which has lacked a clear focus and consistent application for a significant part of the year.
- 36 We are pleased to report that the picture is improving and members are now much more actively engaged in tracking corporate and departmental performance than was the case during much of the past year. Improving performance management and in particular embedding the new arrangements completely within the organisation is a key corporate priority in the months ahead and a task which will require the full commitment and support of members.

## **Asset management**

- 37** As acknowledged by the Council's 2005/06 Statement of Control, arrangements to secure the effective management of the Council's asset base were not in place during the year. However, whilst this is a matter of fact, we acknowledge the positive and appropriate response of the Council to address these previously identified weaknesses although we are concerned that in the interval the Council has lacked a formalised asset management framework in which to operate. At the date of this report the Council's 2006 property strategy remains in draft and the capital strategy is not finalised.
- 38** We are following this issue up as matter of our 2006/07 Use of Resources update and the outcome of this work will determine our overall conclusion of these arrangements.



## Closing remarks

- 39 This report has been discussed with the Director of Finance. A copy of the memorandum will be presented at the Audit Committee on 21 September 2006.
- 40 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 41 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Stephen Taylor**  
**District Auditor**

21 September 2006

# Appendix 1 – Audit responsibilities and approach

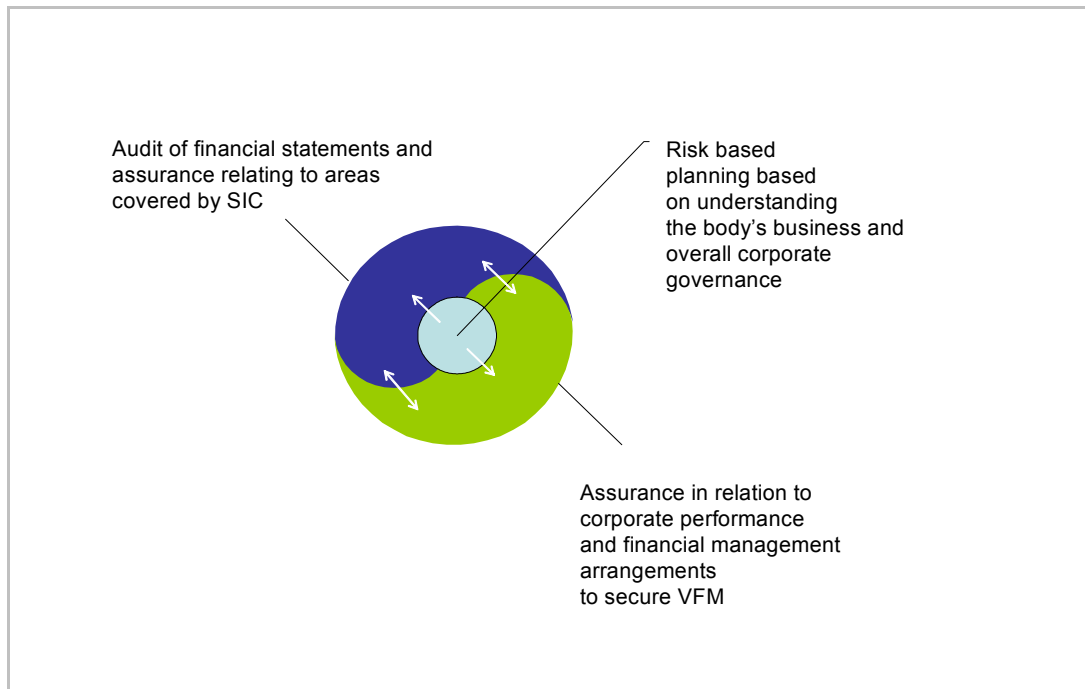
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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### Figure 1 Code of Audit Practice

Code of practice responsibilities



## **Approach to the audit of the financial statements**

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

## **Approach to audit of arrangements to secure value for money**

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 3**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	June 2005	17 June 2005	Management
Annual governance report	21 September 2006	21 September 2006	Audit Committee
Opinion on financial statements	30 September 2006	To follow	The Authority
Value for money conclusion	30 September 2006	To follow	The Authority
Final accounts memorandum	30 September 2006	To follow	Management
Use of resources assessments	November 2005	November 2005	Management
BVPP report	November 2005	29 June 2006	Audit Committee
IT assurance - business continuity and disaster planning	August 2006	August 2006	Management
Review of arrangements for the development of Integrated Children's services	April 2006	May 2006	Audit Committee
Data Quality	September 2006	September 2006	Management

## Appendix 3 – Fee information

**Table 4**

<b>Fee estimate</b>	<b>Plan 2005/06 £</b>	<b>Actual 2005/06 £</b>
Audit		
Accounts*	175,000	175,000
Use of resources*	105,000	105,000
Total audit fees**	280,000	280,000
Voluntary improvement work*		

## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1** We are required by the standard to communicate following matters to the Audit Committee:
  - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

## Appendix 5 – Independent auditor’s report to the Isle of Wight Council

### Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the Isle of Wight Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement<sup>1</sup> and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.



I review whether the statement on internal control reflects compliance with CIPFA’s guidance, ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword<sup>1</sup>. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and

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The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

S Taylor  
District Auditor

Date: September 2006

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority’s Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 *or (except for meeting the requirement to put in place arrangements to monitor the quality of its published performance information, and to report the results to members and/or to put in place arrangements for the management of the asset base).*

## **Best Value Performance Plan**

I issued my statutory report on the audit of the Authority’s best value performance plan for the financial year 2005/06 on 19 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Auditors’ responsibilities**

Auditors have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

Under section 11 of the Audit Commission Act 1998, auditors may designate any audit recommendation as one that requires the Authority to consider it at a public meeting held within one month of the issue of the relevant report and to decide what action to take in response.

## **Certificate**

I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission until investigations are concluded into the legality of severance payments in the year.

S Taylor



## Appendix 6 – Letter of representation

Mr S Taylor  
Relationship Manager and District Auditor  
Audit Commission  
Southern House  
Sparrowgrove  
Otterbourne  
Winchester  
Hampshire  
SO21 2RU

Dear Mr Taylor

### **Isle of Wight Council and Pension Fund - Audit for the year ended 31 March 2006**

We confirm to the best of our knowledge and belief that, having made appropriate enquiries of directors and officers of the Isle of Wight Council with relevant knowledge and experience, we can make the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2006.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly the financial position of the Authority and transactions of the Pension Fund for making accurate representations to you.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representations**

Sufficient controls have been established, and have operated, to identify and correctly classify capitalised expenditure in accordance with relevant proper accounting practice.

All income, expenditure, assets and liabilities administered by, or on behalf of the council, via any form of partnership arrangement have been identified and accounted for in accordance with guidance set out in the SORP.

Sufficient controls have been established, and have operated, to identify, classify and record correctly transactions processed via the council's bank account.

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The steps taken by the council to confirm that the data used by the actuary to calculate FRS 17 disclosure information on a roll-forward basis continues to be appropriate and representative of the membership profile for the council's pension scheme as at 31 March 2005.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board and Committee meetings, have been made available to you.

### **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

### **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### **Statement of Internal control**

There are no issues, other than those that are already disclosed, that need to be disclosed within the Statement of Internal Control.

Signed on behalf of Isle of Wight Council and Pension Fund

Signed

Name	Paul Wilkinson	Councillor Anne Bishop
Position	Director of Finance	Chair of Audit Committee
Date		

## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R1 Ensure that planned improvements in capital accounting are fully implemented by the 31 March 2007.					
	R2 Review the level of reserves and balances and ensure that these are consistent with future funding requirements and corporate priorities.					