

# The Audit Findings for The Council of the Isles of Scilly

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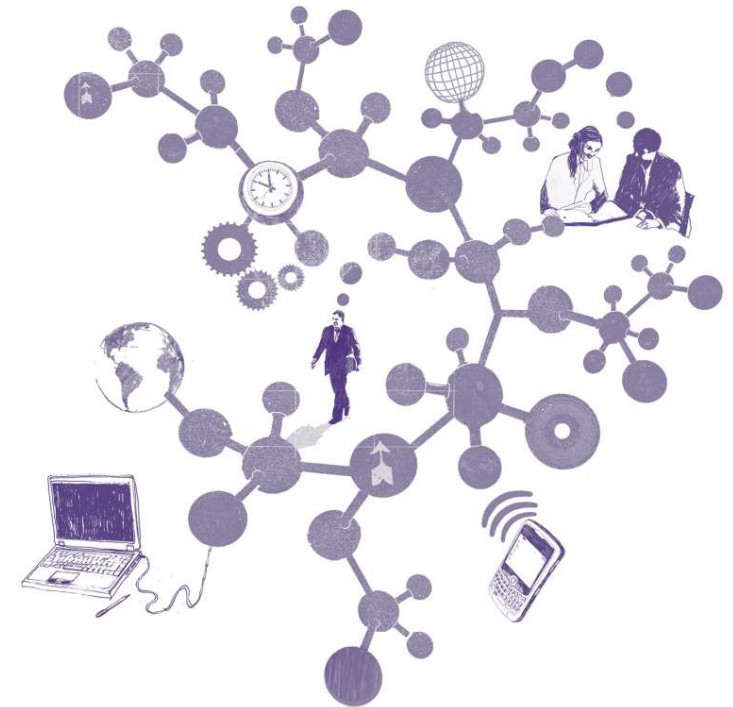
**Year ended 31 March 2015**

16 September 2015

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16 September 2015

Dear Councillors

### **Audit Findings for The Council of the Isles of Scilly for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of The Council of the Isles of Scilly, the Full Council), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Geraldine Daly

#### **Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of The Council of the Isles of Scilly's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2015.

We have undertaken additional work in relation to the Council's accounting treatment for schools following updated national guidance. We report on this in section 2 under accounting policies, estimates & judgements.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements, including the completion of the disclosure checklist
- obtaining and reviewing the final management letter of representation

- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- obtaining the responses from the two firms of solicitors used by the Council in the year
- completing our work on your Whole of Government Accounts return.

## Key issues arising from our audit

### Financial statements production

In 2014/15 the Council once again outsourced the production of its financial statements, due to a lack of capacity in-house. The incoming Senior Manager: Finance and Resources has advised us that it is his aim to produce the Council's financial statements internally in future years.

We support this initiative. Local Government financial statements are inherently complex documents and their production by a third party, irrespective of their skills and experience, is inevitably hindered by the lack of an in-depth understanding of the organisation concerned.

We received the draft financial statements and the accompanying working papers at the start of our audit, in accordance with the agreed timetable.

However, the lack of capacity within the Council's finance team meant that there were sometimes delays in responding to requests for information. This led to inefficiencies in the audit process from our perspective and also within the Council itself.

### **Financial statements opinion**

We anticipate providing an unqualified opinion in respect of the financial statements.

There are no unadjusted errors within the Council's financial statements.

Although a number of adjustments have been made to the Council's financial statements, we did not identify any material errors affecting the Council's reported financial position. The net assets moved from £42,319k to £42,038k and the Council's General Fund balance has only changed by £16,000.

As part of our audit we requested that two prior period adjustments were presented differently.

We also identified a small number of adjustments to improve the presentation of the financial statements, although none of these were particularly significant.

Further details are set out in section two of this report.

### **Value for Money conclusion**

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues:

1. The Head of Internal Audit opinion was that, overall, the Council's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas. In particular, risk management was assessed as being poor with the written procedures not being complied with.
2. The Council does not have a robust and sustainable Medium Term Financial Strategy that goes beyond 2015/16 as the assumptions underpinning it regarding central government support are, in our view, unrealistic.

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### **Findings**

In 2013/14 we reported to you the concerns raised by your Internal Auditors regarding the Council's internal controls.

In our audit plan we advised you that did not plan to place any reliance on the Council's internal controls and would look to obtain substantive evidence to support our opinion. This is the approach we followed during the course of our audit.

As set out on the previous page, we have again referred to your Internal Auditor's commentary on the Council's overall control environment in our VFM Conclusion.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Council's s151 Officer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Council's s151 Officer and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2015**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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04. Fees, non-audit services and independence

05. Communication of audit matters



# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Policy and Resources Committee on 30 April 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 30 April 2015.

We have undertaken additional work in relation to the Council's accounting treatment for schools following updated national guidance. We report on this in section 2 under accounting policies, estimates & judgements.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at The Council of the Isles of Scilly, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including The Council of the Isles of Scilly, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. However, we did note that the system does not automatically record the date a journal is entered and this information has to be added manually.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• undertaken cut-off testing and searched for unrecorded liabilities</li> <li>• substantively tested operating expenses incurred by the Council</li> </ul>	<p>Our audit work has not identified any issues in this respect.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• undertaken cut-off testing to ensure transactions are recorded in the correct accounting period</li> <li>• substantively tested payroll transactions for a number of employees</li> <li>• performed analytical procedures and a trend analysis</li> </ul>	<p>Our audit work has not identified any issues in this respect.</p> <p>As noted on page 21, the Officer remuneration notes were updated to reflect incorrect pension payments and incorrect bandings.</p>

## Audit findings against other risks (cont'd)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare Expenditure</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• reconciled the financial statements to the subsidy claim form</li> <li>• undertaken full BEN01 certification work to provide assurance</li> </ul>	<p>Our audit work has not identified any issues in this respect.</p>

# Accounting policies, estimates & judgements


In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary	Comments	Assessment
<b>Revenue recognition</b>	The Council's accounting policy is that revenue from : <ul style="list-style-type: none"> <li>the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>the provision of services is recognised when the Authority can measure reliably the percentage of completion and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> </ul>	The Council's revenue recognition policy is clearly set out and is consistent with that of the previous year.  The policy has been reviewed and assessed as being in accordance with CIPFA's requirements and in line with that adopted by other Local Authorities.	<div style="text-align: center;">   <b>Green</b> </div>

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators (red)
- Accounting policy appropriate but scope for improved disclosure (amber)
- Accounting policy appropriate and disclosures sufficient (green)




# Accounting policies, estimates & judgements (cont'd)

Accounting area	Summary	Comments	Assessment
<p><b>Estimates and judgements</b></p>	<p>In its financial statements, the Council disclosed that the only key judgements and estimates are in relation to:</p> <ul style="list-style-type: none"> <li>• Future funding</li> <li>• School buildings</li> <li>• Revaluation of property, plant and equipment (including useful lives and impairments)</li> <li>• Pension liabilities</li> </ul> <p>We feel that other significant judgements and estimates involve:</p> <ul style="list-style-type: none"> <li>• NDR appeals</li> <li>• Provisions</li> </ul>	<p>As noted overleaf:</p> <ul style="list-style-type: none"> <li>• we are of the view that it is appropriate to prepare the Council's financial statements for the year ended 31 March 2015 on a going concern basis.</li> <li>• we are satisfied that there is an adequate rationale for the way in which schools had been treated within the Council's financial statements.</li> </ul> <p>We have engaged with the Council throughout the year regarding PPE valuations, particularly those that were not formally revalued in the year. We are satisfied that the Council has adequate arrangements in place to ensure that all PPE is fairly valued at the balance sheet date.</p> <p>We are satisfied that the Council's pensions liabilities and arrears are fairly stated.</p> <p>The Council did not calculate the provision for non domestic rates (NDR) appeals correctly:</p> <p>(a) the provision was based on the rateable value (RV) rather than the amount actually due - typically around 50% of the RV.                  (b) the provision was only based on 1 year whereas it could cover anywhere from 1 to 5 years.</p> <p>The Council is of the view that (a) and (b) would (coincidentally) cancel each other out. We have concluded that the provision is materially correct</p> <p>The draft accounts included a provision of £21,000 to cover claims made by former employees for untaken leave. These claims were settled in the year and the provision was deemed to be no longer required.</p>	<p style="text-align: center;">   <b>Amber</b> </p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators (red)
- Accounting policy appropriate and disclosures sufficient (green)
- Accounting policy appropriate but scope for improved disclosure (amber)

# Accounting policies, estimates & judgements continued

Accounting area	Summary	Comments	Assessment
<b>Judgements - local authority maintained schools premises</b>	<p>As noted earlier, updated guidance was issued in the year regarding accounting for schools.</p> <p>The key issue is regarding the actual control over the schools, rather than one of physical ownership.</p>	<p>In previous years the main school site on St Mary's was included on the Council's balance sheet as it was an asset which was fully owned by the Authority.</p> <p>However, for 2014/15 clarification on accounting for voluntary controlled schools has been received and this has resulted in the recognition of the three off-island school bases on the Council's balance sheet. The schools are: Tresco (£232,000), St Agnes (£139,000) and St Martins (£148,000).</p>	 <b>Green</b>
<b>Going concern</b>	<p>The Council has advised us that it has a reasonable expectation that the services it provides will continue for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing its financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's view that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 <b>Green</b>
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators (red)

● Accounting policy appropriate but scope for improved disclosure (amber)

● Accounting policy appropriate and disclosures sufficient (green)

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Council and we have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A letter of representation has been requested from the Council.
4.	<b>Disclosures</b>	We agreed a small number of amendments to disclosures in the financial statements. These are detailed on the table on page 21.
5.	<b>Matters in relation to related parties</b>	We have questioned whether Kernow CCG is a related party and management are currently reviewing this. We are not aware of any other related party transactions which have not been disclosed.
6.	<b>Confirmation requests from third parties</b>	We obtained direct confirmations from the Public Works Loan Board (PWLB) for loans and requested from management permission to send confirmation requests for bank balances . This permission was granted and the requests were sent which were returned with positive confirmation.  We requested management to send letters to both solicitors who worked with the Council during the year. As at 16 September 2015 no responses have been received. We have requested management to follow up the outstanding responses.





# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Operating Expenses, Employee Remuneration and Welfare Expenditure as set out on pages 11 and 12 above.



In 2013/14 we reported to you the concerns raised by your Internal Auditors regarding the Council's internal controls and in our audit plan we advised you that did not plan to place any reliance on the Council's internal controls. We obtained substantive evidence to support our opinion.

We have again referred to your Internal Auditor's commentary on the Council's overall control environment in our VFM Conclusion – see section three of this report.

	Assessment	Issue and risk	Recommendations
1.	 <b>Red</b>	<p>The 2014/15 Head of Internal Audit opinion stated:</p> <p>"Overall the Council's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas."</p> <p>The Head of Internal Audit opinion for 2014/15 notes that the majority of the recommendations from the previous year had not been addressed.</p>	<p>The Council should review the recommendations made by Internal Audit and ensure that there is an adequate action plan in place to address those recommendations it considers to be key.</p>
2	 <b>Amber</b>	<p>On page 10 we reported that the Council's main accounting system does not automatically record the date a journal is entered and this information has to be added manually. This could give rise to the concealment of fraudulent transactions</p>	<p>The Council should enquire whether the system can be amended so that the date of journal processing is automatically entered. Should this not be possible, the Council should remind staff of the need to enter the date of processing for all journals.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Assessment

-  Significant deficiency (red) – risk of significant misstatement
-  Deficiency (amber) – risk of inconsequential misstatement

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	In 2013/14 we reported to you the concerns raised by your Internal Auditors regarding the Council's internal controls .	<p>The 2014/15 Head of Internal Audit opinion stated:</p> <p>"Overall the Council's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas."</p> <p>The Head of Internal Audit opinion for 2014/15 notes that the majority of the recommendations from the previous year had not been addressed and describes many of the issues arising from their audit work as 'perennial'.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1 Land previously not included within the Council's financial statements was incorrectly entered into the fixed assets register as £315,000 whereas the valuation schedule indicated that it should be £150,000. Therefore values were overstated by £165,000.	None	£165,000
2 The balance on the school's bank account at the end of June 2015 was used to prepare the financial statements rather than that at the end of March 2015. The figure for cash and equivalents and the schools reserve were both overstated by £136,000. There was no impact on the consolidated income and expenditure statement.	None	No net effect
3 The depreciation on some of the Council's property, plant and equipment (PPE) had not been calculated correctly, particularly in relation to the Council's own policy to charge six months depreciation in the year of purchase.	£173,000	£173,000
4 The Collection Fund Adjustment Account balance did not separately identify the amounts due to Council Tax (£48k) and non domestic rates (£7k).	None – only relates to Collection Fund	None – only relates to Collection Fund
5 The draft accounts included a provision of £21,000 to cover claims made by former employees for untaken leave. These claims were settled in the year and the provision was deemed to be no longer required.	£21,000	£21,000

Some of the matters reported here, and elsewhere in this report, will also have a consequential effect on the Council's movement in reserves statement (MIRs). These are not recorded here separately.

## Unadjusted misstatements

There are no unadjusted misstatements within the draft accounts.

## Unadjusted misstatements – prior years

No uncorrected misstatements were reported in the prior years which impact on the current year's accounts.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Area`	Adjustment made
1 Prior period adjustment	The Authority's financial statements contain a prior period adjustment which relates to the three off-island schools (further information is included on page 15) and also to land not previously valued. These were originally adjusted for by amending the 2013/14 comparative figures. The Authority subsequently agreed to make these adjustments by updating the opening balances for 2013/14 i.e. the introduction of a 'third balance sheet'.
2 Officers' remuneration (notes 28 and 29)	The remuneration notes were updated to reflect incorrect pension payments and incorrect bandings.
3 Financial Instruments (note 12)	<p>There were a number of adjustments made to financial instruments noted, including:</p> <ul style="list-style-type: none"> <li>• the split between short term borrowing and long term borrowing was originally incorrectly stated</li> <li>• figures not being consistent with other parts of the financial statements</li> <li>• adjustments not being made to debtors and creditors for amounts which should have been excluded</li> </ul>
4 External Audit Fees (note 31)	Although trivial, we asked for a small amendment to be made to the External Audit fees disclosed in the financial statements.

In addition to the above issues, the draft financial statements included a number of typographical and presentational issues. Although none of these were significant in their own right, they do illustrate the need for a robust quality assurance process in future years.

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## Section 3: Value for Money

01. Executive summary

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# Value for Money

## Value for money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) Conclusion.

We are also required by the Audit Commission's Code of Audit Practice 2010 (the Code) to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2014, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work which was included in our 2014/15 audit plan as set out below.

## Work undertaken

Our audit plan set out the work we would undertake in 2014/15. This was:

- Following up on the matters reported in 2013/14 concerning the Head of Internal Audit opinion and the lack of a robust and sustainable Medium Term Financial Strategy that went beyond 2014/15.
- Review of the Council's medium term financial plan and the robustness of any savings plans needed to keep the Council in financial balance; and
- Review of the Council's risk management arrangements and the extent to which risk registers are kept up to date.

## Key findings

### Head of Internal Audit Opinion

The 2014/15 Head of Internal Audit opinion stated:

"Overall the Council's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas."

The Head of Internal Audit opinion for 2014/15 notes that the majority of the recommendations from the previous year had not been addressed and the opinion goes on to say:

"Given that many of the issues arising from our audit work are perennial, it is critical that those charged with governance (specifically senior management and the Finance, Audit and Scrutiny Committee) regularly obtain assurance over the progress of the implementation of [agreed] audit recommendations."

### Financial Planning

In our Audit Findings Report for 2013/14 we reported that the Council did not have a robust and sustainable medium term financial strategy that went beyond 2014/15.

Furthermore, we reported that the 2014/15 budget was balanced by the inclusion of a number of non-recurrent savings, totalling approximately £400,000, including the following significant items:

- Vacant positions within the Council (£150,000)
- Reallocation of flood budget monies (£100,000)
- Use of previous years' grant funding for Life Long Learning (£61,000)

## Value for Money (cont'd)

The Council set its original budget for 2014/15 in March 2014. At that time the budget was expected to have no effect on the Council's General Fund balance, which was projected to stay at £2.122m by the end of that year.

The Council has previously determined a minimum level for its General Fund of £626,000, so the projected balance at 31 March 2015 remained comfortably above that minimum level.

In reality, the Council's financial statements for the year ended 31 March 2014 ultimately showed the General Fund balance at 31 March 2014 to be £2.02m, approximately £120k less than was predicted when the 2014/15 original budget was set.

The Council's revised budget for 2014/15 subsequently planned to reduce the General Fund balance by a further £972,000. This included a substantial one-off contribution towards the roads resurfacing on St Mary's of £900,000.

The outturn reports provided to us for 2014/15 show that there were a number of variances compared to the revised budget which culminated in a further reduction to the Council's General Fund of approximately £180,000. The General Fund balance at 31 March 2015 stands at £865k. Although this is above the minimum level set by the Council, it is 60% less than was predicted when the original budget was set in March 2014.

Looking ahead to 2015/16, the Council does not plan to draw on its General Fund in the current year and any savings plans have been built into the base budget. The budget monitoring reports produced so far in 2015/16 do not enable us to comment on the overall financial performance of the Council to date and therefore its General Fund position. The Council's budget and ledger are two separate systems and this is not conducive to effective financial reporting. Sound budgetary control, including regular reporting to Members is essential for the Council to maintain its financial viability. We understand that the current Senior Manager: Finance and Resources is working to improve the Council's arrangements in this area.

As part of the 2015/16 budget setting process, the Council has produced an outline budget for the next three years (i.e. up to 2018/19). This shows modest Council Tax increases of 1% per annum, with income from business rates (non-domestic rates) and the revenue support grant (provided by the Government) remaining unchanged over that four year period.

With regards to the latter assumption, the Local Government Association (LGA) anticipates a 40% real terms cut to core Government funding over the life of the current parliament.

The Council has not been able to provide any evidence to support its view that it will be protected from these cuts and we therefore have doubts as to the realism of the Council's plans.



## Value for Money (cont'd)

The LGA also anticipates further pressures on Local Authorities which could impact on the ability to maintain the current levels of service provision:

**Cost pressures** – including care service reforms (e.g. deferred payment schemes, social care cost cap), additional public health duties, an ageing population, pressures on social housing services and inflation.

**Other pressures** – including business rate appeals, welfare reforms and potential changes to interest rates.

Since producing this outline budget, the Council has recently agreed a corporate plan. It is important for the next iteration of its financial plans to reflect this so as to ensure consistent planning, with sufficient resources being available to deliver the Council's aspirations.

### **Risk Management**

The Council's Internal Auditors assessed the controls around Governance (including Risk Management) as poor and concluded that this was a high risk area.

They noted that while the Council has a written risk management framework in place, there was no evidence of risks being assessed, reviewed or reported on a regular basis. Internal Audit found risks that were no relevant (e.g. the aging helicopter service) and new risks that had been overlooked (e.g. the significant redevelopment works at the airport).

The Council has since updated its risk management policy which we understand will be presented to Members in the near future. However, our view is that it is the adherence to the existing framework that is an issue and the Council needs to ensure this updated policy is implemented properly.

### **Overall VfM conclusion**

The Audit Commission's Value for Money guidance for 2014/15, issued in October 2014, requires us to report any matters that come to our attention which prevent us from being satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have concluded that there are the following matters to report:

1. The Head of Internal Audit's opinion for 2014/15 was that, overall, the Council's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas. In particular, risk management was assessed as being poor with the written procedures not being complied with.
2. The Council does not have a robust and sustainable Medium Term Financial Strategy that goes beyond 2015/16 as the assumptions underpinning it regarding central government support are, in our view, unrealistic.

# Value for Money (cont'd)

## **The way forward**

### **Head of Internal Audit Opinion**

- The Council should review the recommendations made by Internal Audit and ensure that there is an adequate action plan in place to address those recommendations it considers to be key.

### **Financial Planning**

- The Council should re-assess the minimum level of its General Fund balance.
- The budgetary control procedures should be reviewed to improve the efficiency and timeliness of financial reporting to budget holders and Members.
- The Council should review the assumptions underpinning its medium term financial strategy and should satisfy itself that these are reasonable and reflect current thinking. This may involve engagement with the relevant Government departments.
- The Council should ensure that its medium term financial plan provides the resources to support the delivery of its recently adopted corporate plan.

### **Risk Management**

- The Council needs to ensure that its updated risk management policy is implemented properly.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters

# Fees, non-audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services/confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	36,170	36,170
Grant certification on behalf of Audit Commission	5,970	5,970
<b>Total audit fees</b>	<b>42,140</b>	<b>42,140</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
2014/15 Teachers Pensions End of Year Certificate (fee unchanged from 13/14)	3,200
<b>Non audit related services</b>	
Objection from a member of public received in 2013/14.	2,724

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings Report
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should review the recommendations made by Internal Audit and ensure that there is an adequate action plan in place to address those recommendations it considers to be key.	Med	Agreed. Internal Audit are due to commence 2015/16 audits with the Authority in early October 2015 progress on outstanding recommendations will be reviewed and action plans developed as part of this work. Additionally the staff restructure of November 2014 included the Policy and Scrutiny Officer role. Part of this role includes the review of progress on Internal and External Audit recommendations and will cascade these on an exception basis to meetings of the Finance, Audit and Scrutiny Committee	Ongoing and completion by March 2016.  Key responsibility: Senior Manager: Finance and Resources
2	The Council should enquire whether the system can be amended so that the date of processing is automatically entered. Should this not be possible, the Council should remind staff of the need to enter the date of processing for all journals.	Low	Agreed. We will request this information form the supplier of our Financial Information System. If not available then procedures will be amended to include the date of processing for journals.	November 2015  Key responsibility: Senior Manager: Finance and Resources
3	The Council should re-assess the minimum level of its General Fund balance.	Med	As part of preparations for the 2016/17 Budget and development of a Medium Term Financial Strategy for the coming 4 year period a full review will be undertaken as regards the adequacy of the General Fund and all other earmarked reserves.	January 2016  Key responsibility: Senior Manager: Finance and Resources
4	The budgetary control procedures should be reviewed to improve the efficiency and timeliness of financial reporting to budget holders and Members.	High	A budget working group has been initiated to review the complete budgeting system and to implement a simpler and more robust set of processes. This will include a review of reserves and identification of the most efficient formatting and content of budget reports. Member and Budget Holder collaboration will be key to the success of this project.	January 2016  Key responsibility: Senior Manager: Finance and Resources



## Appendix A: Action plan (Cont'd)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	The Council should review the assumptions underpinning its medium term financial strategy and should satisfy itself that these are reasonable and reflect current thinking. This may involve engagement with the relevant Government departments.	High	Agreed. This is an essential part of the Budget Planning process for the 2016/17 year and MTFS. Engagement with Government Departments is planned.	January 2016  Key responsibility: Senior Manager: Finance and Resources
6	The Council should ensure that its medium term financial plan provides the resources to support the delivery of its recently adopted corporate plan..	High	Agreed, the alignment of the golden thread of corporate planning to incoming resources is an essential part of the MTFS process as described above.	January 2016  Key responsibility: Senior Manager: Finance and Resources
7	The Council needs to ensure that its updated risk management policy is implemented properly.	High	Agreed, A revised Risk Management Policy will be presented to Members imminently alongside revision to the strategic risk registers and risk owners.	November 2015  Key responsibility: Senior Manager: Democratic and Corporate

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## DRAFT WORDING SUBJECT TO CHANGE

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COUNCIL OF THE ISLES OF SCILLY

We have audited the financial statements of The Council of the Isles of Scilly for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 39 to 39.4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of The Council of the Isles of Scilly, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Council's Section 151 Officer and auditor

As explained more fully in the Statement of the Council's Section 151 Officer's Responsibilities, the Council's Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council's Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of The Council of the Isles of Scilly as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

## Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our review in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2014, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work: following up on the matters we reported in 2013/14 concerning the Head of Internal Audit's opinion for 2013/14 and the Authority's lack of a robust and sustainable Medium Term Financial Strategy that went beyond 2014/15; review of the Authority's medium term financial plan and the robustness of any savings plans needed to keep the Authority in financial balance; and review of the Authority's risk management arrangements and the extent to which risk registers are kept up to date.

As a result, we have concluded that there are the following matters to report:

- The Head of Internal Audit's opinion for 2014/15 was that, overall, the Authority's systems of governance, risk management and control in operation in 2014/15 were generally weak, with considerable room for improvement in many areas. In particular, risk management was assessed as being poor with the written procedures not being complied with.
- The Authority does not have a robust and sustainable Medium Term Financial Strategy that goes beyond 2015/16, as the assumptions underpinning it regarding central government support are, in our view, unrealistic.

**Certificate – subject to confirmation**

We certify that we have completed the audit of the financial statements of The Council of the Isles of Scilly in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Geraldine Daly  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

25 September 2015



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