

Annual governance report

Council of the Isles of Scilly

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 27 September 2012 I expect to issue an unqualified audit opinion.

My audit did not identify any errors which adjusted the primary financial statements. I did identify amendments to disclosures made in the supporting notes to the statements. The financial statements have been updated for the issues raised so that there are no uncorrected misstatements.

The financial statements were produced to a high standard and the audit has been facilitated by excellent supporting working papers and assistance by the finance team.

Value for money (VFM)

I expect to conclude that there are no matters arising from my VFM work that I need to report.

My review of the Council's Annual Governance Statement (AGS) found that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I reviewed the results of the work of other relevant regulatory bodies and inspectorates, to consider whether there was impact on my responsibilities. I did not identify any issues.

Certificate

I cannot formally conclude the audit and issue an audit certificate until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit Committee to:

- take note of the adjustments to the disclosure notes in the financial statements included in this report;
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 4).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

There are no uncorrected errors I need to report to you.

Corrected errors

My audit did not identify any errors which adjusted the primary financial statements. This is a significant improvement as in previous years a number of amendments were made that changed the draft figures in the financial statements. I did identify amendments to disclosures made in the supporting notes to the statements. The financial statements have been updated for the issues raised so that there are no uncorrected misstatements.

I have outlined the significant disclosure issues in Table 1, where I report to you the qualitative aspects of your accounting practices.

Significant risks and my findings

I reported to you in my January 2012 Audit Plan that I had not identified any significant risks relevant to my audit of your financial statements.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

The matters reported in the Table 2 below relate to qualitative aspects of your accounting practices.

Table 1: **Other matters**

Issue	Finding
Prior Period Adjustments (PPAs)	A number of 2010/11 balances were different to those reported in the 2010/11 audited accounts. Two of these met the definition of a PPA but the remaining six did not. The Council should ensure that PPAs are only made as a result of a change in

Issue	Finding
	<p>accounting policy or to correct a material error. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information.</p> <p>This has been corrected in the revised financial statements.</p>
<p>Impairment of HRA assets</p>	<p>The CIPFA Code requires disclosure of the value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA.</p> <p>HRA impairments were material in 2011/12 but this disclosure was omitted from the draft financial statements.</p> <p>This has been corrected in the revised financial statements.</p>
<p>Note 8: Property, Plant and Equipment; Note 20.1: Revaluation Reserve; and Note 20.2: Capital Adjustment Account.</p>	<p>I was unable to agree some disclosures in the three notes to the same information disclosed elsewhere in the financial statements. This was due to some transactions being netted off against others. To ensure consistency throughout the financial statements, the Council should refrain from netting off and instead include additional lines where necessary.</p> <p>This has been corrected in the revised financial statements.</p>
<p>Note 6: Adjustments between accounting/funding basis under regulations.</p>	<p>A transfer to earmarked reserves of £185k was omitted from Note 6. Consequently the total Usable Reserves in Note 6 was overstated by £185k and did not agree to the Movement in Reserves Statement.</p> <p>This has been corrected in the revised financial statements.</p>
<p>Note 8.3: Capital Commitments</p>	<p>Capital commitments in Note 8.3 were overstated by £160k due to administrative error when compiling the Note.</p> <p>The Note has been amended to reflect the correct figure of £3,678k.</p>
<p>Note 12: Financial Instruments</p>	<p>This note contained debtors and creditors balances that related to statutory balances, these are non-contractual and should be excluded.</p> <p>The Note has been amended to reflect the correct figures.</p>
<p>Annual Governance Statement (AGS)</p>	<p>For 2011/12 the Council was required to include a specific statement on whether their</p>

Issue	Finding
	<p>financial management arrangements conformed with the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework; and, where they do not, an explanation of how they deliver the same impact.</p> <p>The Council omitted to include this statement.</p> <p>The AGS has now been amended to include this statement.</p>

My review of the Council's Annual Governance Statement (AGS) also found that although it contained all the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; the actual guidance asks for brief explanations, however the Council had included vast amounts of information that make it hard for the public to read, follow and understand.

Recommendation
<p>R1 The Council should review its Annual Governance Statement against the CIPFA/SOLACE guidance with a view to making the AGS more user friendly.</p>

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to consider the Authority's arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission has determined that the scope of my work on value for money at the Authority is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as suitable.

As I reported in my January 2012 Audit Plan:

- I am not aware of any relevant work of other relevant regulatory bodies or inspectorates; and
- I have not identified any significant risks requiring specific risk-based work.

I have reviewed your Annual Governance Statement (AGS) and I have no matters that I need to report.

Fees

I reported my planned audit fee in the January 2012 Audit Plan.

I have agreed with the Director of Finance a revision to the fee because of the matters highlighted below.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit*	£56,550	£56,550
Claims and returns	£10,469	£10,469
Non-audit work – objections**	£0	£49,000 (as at 27 September)
Total	£67,019	£116,019

*The Audit Commission has paid a rebate of £4,524 (8%) to reflect attaining internal efficiency savings.

** This relates to objections received in respect of the 2009/10 and 2010/11 financial statements.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE COUNCIL OF THE ISLES OF SCILLY

Opinion on the Authority and firefighters’ pension fund financial statements

I have audited the financial statements and the firefighters’ pension fund financial statements of the Council of the Isles of Scilly for the year ended 31 March 2012 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 Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The firefighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of the Council of the Isles of Scilly in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Resources’ and auditor

As explained more fully in the Statement of the Director of Finance and Resources’ Responsibilities, the Director of Finance and Resources’ is responsible for the preparation of the Authority’s Statement of Accounts, which include the Authority financial statements and the firefighters pension fund 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, and for being satisfied that they give a true and fair view. My 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 require me 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 and firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources'; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Council of the Isles of Scilly as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my 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 I report by exception

I report to you if:

- in my 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;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Other matters on which I am required to conclude

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

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of the following:

- my review of the annual governance statement; and
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities.

As a result, I have concluded that there are no matters to report.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements or a significant impact on my value for money conclusion.

Simon Garlick
District Auditor
Audit Commission
3-4 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
Devon EX2 8PW

27 September 2012

Appendix 2 – Draft letter of management representation

Council of the Isles of Scilly – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of the Council of the Isles of Scilly, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

There are no uncorrected misstatements.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

Two restatements were made in the prior period financial statements. This affects the comparative information of the Cash Flow Statement and Note 31.3: General Revenue Grants credited within Net Cost of Services. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of the Council of the Isles of Scilly

I confirm that the this letter has been discussed and agreed by Full Council on 27 September 2012

Signed

Name

Position

Date

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee or equivalent.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 4 – Action plan

Recommendations

Recommendation 1 - The Council should review its Annual Governance Statement against the CIPFA/SOLACE guidance with a view to making the AGS more user friendly.

Responsibility	Director of Finances and Resources
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Priority	High
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Date	31 March 2013
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Comments	The AGS will be reviewed and a revised version presented to P&R Committee in February 2013.
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- any director/member or officer in their individual capacity; or
- any third party.

