

Annual Governance Report

Council of the Isles of Scilly

Audit 2009/10

September 2010

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Status of our reports

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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance and Resources on 10 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Name
Patrick Jarvis

10 September 2010

Key messages

This report summarises the findings from the 2009/10 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	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	No	9
Value for money	Results	Page
Adequate arrangements to secure value for money	No	12

Audit opinion

- 1 My work on your financial statements is nearing completion. Subject to completion of outstanding work I intend to give an unqualified audit opinion.

Financial statements

- 2 The accounts adopted by the full Council on 23 June 2010 were made available for audit supported by detailed working papers. Supplementary working papers were produced in response to queries.
- 3 The accounts were generally well presented. A number of adjustments have been made to the accounts as a result of the audit but none of these had a material impact on the Council's financial position. I am currently awaiting a revised set of financial statements to ensure the relevant amendments are made.

Internal Control

- 4 In last year's Annual Governance Report presented to the Council in September 2009 I commented on weaknesses in key financial systems. Many of these have persisted into 2009/10. The Council needs to assure itself that these weaknesses have now been addressed in accordance with the action plan in place to address these and improvements in 2010/11 are sustained. The Council completed a property purchase in 2009/10 without obtaining an independent valuation and I regard this as a further weakness in the Council's arrangements.

Key messages

Value for money

- 5 I am satisfied that overall the Council has adequate arrangements in place to achieve value for money but I have qualified my opinion in two specific areas. The Council does not yet have adequate processes for strategic asset management and in my view had significant weaknesses in controls during 2009/10.
- 6 Despite its limited management resources the Council has made good progress in meeting the criterion around performance management and use of data.

Audit Fees

- 7 My interim review of financial systems identified that due to staff changes during 2009/10, key controls were only partially effective in a number of financial systems. Therefore I have had to carry out additional substantive testing as part of the opinion audit. This will be discussed with the Director of Finance and Resources at the completion of the audit but my initial assessment is that an additional fee of £3,500 is required in addition to the existing fee of £59,500.
- 8 A review of issues raised by local members of the public may also involve extra audit fees.

Independence

- 9 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

10 I ask the Council to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council 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

- 11 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.
-

Errors in the financial statements

- 12 The findings from my audit of the financial statements have been discussed with the Director of Finance and Resources and are set out below. Firstly I have set out those adjustments that affect the Council's financial position and secondly those that are technical adjustments to the financial statements but with no impact on the Council's overall financial position. In Appendix 2 I have shown material items that have been corrected by the Director of Finance and Resources and in Appendix 3 less important items that do not require amendment.
-

Adjustments identified from our work

Fixed assets

- 13 Depreciation on council houses in 2009/10 was not reversed out at their revaluation at 31 March 2010. The net book value of council houses on the balance sheet at 31 March 2010 was therefore understated by £140,000.
- 14 Repairs and maintenance work on the airport apron is incorrectly capitalised. Depreciation charged to the income and expenditure account is overstated by £46,000 and fixed assets understated in the balance sheet by £46,000.
-

Other minor adjustments identified from our work

Fixed assets

- 15 Depreciation of the incinerator was based on its previous value and useful economic life and therefore incorrectly calculated. Expenditure charged to the income and expenditure account is understated by £12,000 and fixed assets overstated in the balance sheet by £12,000.
-

- 16** An adjustment for impairment resulting from revaluation of the Wesleyan Chapel was not accounted for. Income in the income and expenditure account is understated by £8,000 and reserves overstated in the balance sheet by £8,000.
- 17** No impairment review was initially carried out as at 31 March 2010 on assets other than council houses. The Statement of Recommended Practice on Local Authority Accounting recommends that the current economic climate needs to be considered and that the accounts should recognise changes in the value of assets between 1st April 2009 and 31st March 2010. As a result of my review, the Council has obtained an impairment report that there were no further impairments. In future, this exercise should be carried out as part of the preparation of the draft financial statements.

Debtors

- 18** An accrual relating to 2010/11 of £11,000 was incorrectly included in debtors.

Creditors

- 19** An accrual relating to the benefit service provided by Cornwall Council was omitted. This results in an understatement of £9,000 of expenditure in the income and expenditure account and an understatement of creditors in the balance sheet by £9,000.

Cash and bank

- 20** The Council should consider writing back £13,000 of un-presented cheques over 6 months old identified during the audit.

Prior period adjustment

- 21** A Prior Period Adjustment increase in demand on the Collection Fund was incorrectly treated as a decrease. This resulted in an £8,000 error. Expenditure in the income and expenditure account is understated by £8,000 and reserves overstated in the balance sheet by £8,000.

Housing and council tax benefit

- 22** Errors identified on my work for the opinion audit totalled £4,000. These are extrapolated for the grant certification and I will report on these when my work is complete.

Adjustments to the notes to the financial statements and technical adjustments

Fixed assets

- 23** I identified the following errors:
- Incorrect treatment of the Garrison play area meant £70,000 was credited to the Revaluation Reserve rather than the Government Grants Deferred Reserve; and
 - An asset previously impaired was revalued upwards in 2009/10 but the impairment not reversed out. An adjustment of £15,000 was required to the balance sheet.

Financial statements

Statement of Movement in General Fund Balance

- 24 The charge for depreciation and impairment of fixed assets should exclude the depreciation charged on Housing Revenue Account assets over and above the Major Repairs Allowance. £67,000 was not excluded.

Recommendation

- R1 Adjust the financial statements for the errors identified during the course of the audit.

Important weaknesses in internal control

- 25 In my 2008/09 audit I identified and reported to the Council in September 2009 a number of key controls that were not operating effectively. The Council agreed to implement the recommendations from my 2008/09 report by the end of March 2010. Some controls therefore did not operate effectively throughout all of 2009/10. This was confirmed by the systems review early in 2010. I therefore undertook additional substantive testing during the audit of the accounts to reduce the risk of material misstatement to an acceptably low level.
- 26 Significant control weaknesses that still existed in the latter part of 2009/10 are set out in Table 1 below.

Table 1 Summary of findings from my review of material systems

There were a number of systems where not all controls were operating effectively

Information system	Control Weakness
Benefits	<ul style="list-style-type: none">in-house benefit assessment accuracy checks were not being completedlack of formal service level agreement with service provider (temporary arrangement - now under review)no reconciliation of the payments made to the general ledger (identified as part of the claim certification work)
Creditors	<ul style="list-style-type: none">monthly reconciliations were not being completed
Debtors	<ul style="list-style-type: none">monthly reconciliations were not being completedonly limited arrears chasing (also reported in 2008/09)
General ledger	<ul style="list-style-type: none">material unexplained items on bank reconciliation - these have subsequently been satisfactorily resolved
National Non-Domestic Rates (NNDR)	<ul style="list-style-type: none">regular reconciliation to Valuation Office listings not being completed
Payroll	<ul style="list-style-type: none">inadequate separation of duties and lack of regular reconciliations

27 I issued a separate report to the Director of Finance on these issues in June 2010. While the Council has an agreed action plan in place to address the issues I raised in my 2008/09 review, the Council needs to confirm that the issues raised in 2009/10 have been resolved or that there is a robust plan in place to do so and improvements in 2010/11 are sustained. I have taken account of the control weaknesses existing in 2009/10 in forming my value for money conclusion. This is set out in more detail later in this report.

Recommendation

R2 Confirm the actions taken to address control weaknesses.

Key areas of judgement and audit risk

28 In planning my audit I identified a number of specific risks or areas of judgement that I would need to consider as part of my audit. Table 2 sets out the results of my work in those areas.

Table 2 Key areas of judgement and audit risk

There were two areas identified for 2009/10

Issue or risk	Finding
<p>Although there are available resources for the closedown process there is the risk of unexplained transactions as a result of changes in key staff during 2009/10.</p>	<p>The opinion audit work did not identify any cases of unexplained transactions.</p>
<p>The review of material information systems identified the following:</p> <ul style="list-style-type: none"> • there has been limited progress in addressing the systems issues identified in my 2008/09 audit which limits my ability to place assurance on these as part of a controls-based approach; • an instance of material unexplained transactions in the key control of the bank reconciliation to the general ledger. 	<p>Limited reliance on controls means I am required to carry out a greater amount of substantive testing as part of the opinion audit. This has resulted in an increased fee for the audit.</p> <p>My review identified this was resolved at the year end reconciliation.</p>

Accounting practice and financial reporting

29 I consider the qualitative aspects of your financial reporting. Table 3 contains the issues I want to raise with you. Management have agreed to make these changes and inclusions to the revised financial statements.

Table 3 Non numeric content in financial reporting

There are a number of issues

Finding	Impact
Material omission from the note on financial instruments.	My review of the note on financial instruments disclosures identified areas for improvement to meet the SoRP. In particular a disclosure of the fair value of the PWLB loan is required.
I requested inclusion of a note as a post balance sheet event to reflect the change in increase in pension funds from the Retail Price Index (RPI) to the Consumer Price Index (CPI).	This may lead to a reduction in pension fund liabilities (which have increased from £2 million in 2008/09 to £6 million in 2009/10).
The Council has a large number of unspent grant allocations from the current and previous years that it is holding for potential and actual schemes in future years.	Given the increased pressure on public spending, the Council needs to ensure this grant funding remains available to support these schemes in future.

Recommendation

R3 Include the additional disclosures in the financial statements identified during the course of my audit.

R4 Ensure current and prior year grant funding remains available to support schemes in future years if these amounts are held and allocated to specific schemes.

Other matters

30 I raised the issue of the timeliness of submission of grant claims to central government departments in last year's Annual Audit Letter. I am aware that the government department have contacted the Council around late submission of the housing subsidy base data claim. The government department is also withholding payment of subsidy because the NNDR3 claim, currently prepared on the Council's behalf by Cornwall Council, is not completed (the deadline for submission was in late June 2010 but it was only presented for audit at the beginning of September 2010). Although there is no immediate impact on the Council's cashflow from this withholding of subsidy, the Council must ensure it produces the relevant claims by the necessary date.

Letter of representation

31 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 32** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 33** My work has reviewed the seven areas on which I am required to make an assessment. I identified weaknesses in your arrangements in two criteria set out in Table 4.

Table 4 Value for money conclusion : criteria assessed as inadequate

Two criteria are assessed as not met

Risk area	Finding
Risk Management and Internal Control	There are a number of control weaknesses in financial systems as set out in Table 1. The Council failed to obtain an independent market valuation for a property purchased in 2009/10.
Strategic asset management	The Council's arrangements in this area remain underdeveloped. The Council recognises that further work is required in this area and this will be carried out as a specific project once the necessary resources are available.

-
- 34** I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources except that it did not put in place adequate arrangements for managing its assets effectively and for risk management and internal control. Appendix 1 contains my draft report.
- 35** The Council is to be commended for the progress it has made in its arrangements for performance management and use of data. In previous years I have qualified my conclusion in this area and I am pleased that this is not necessary in 2009/10.

Other Matters

- 36** A number of members of the public have contacted me to express concern at recent pay rises awarded to Chief Officers. I am currently considering this issue to determine whether it is relevant to my statutory duties as the Council's external auditor. I hope to report further on this issue in my annual audit letter later in autumn 2010.
- 37** Members of the public have also expressed concerns to me about the Council's purchase of a property in 2009/10 to provide additional accommodation for the Council and the Fire and Rescue Service. The Council paid £100,000 for the purchase. It was agreed as an executive action under Financial Regulation 55.4. Approval was given by four leading members of the Council. The decision was subsequently ratified by full Council at its meeting on 10 September 2009. I have reviewed the circumstances of this purchase and I noted that the Council failed to obtain an independent professional valuation of the property before the purchase. The business case for selecting that particular property could also in my view have been better expressed. It is difficult therefore to determine whether the Council achieved best value in the transaction. In my view this is a serious weakness in the Council's control and governance arrangements and I have taken account of this in forming my value for money conclusion as set out in Table 4 above.

Glossary

Annual governance statement

- 38** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 39** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 40** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
-

Audit closure certificate

- 41** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.
-

Audit opinion

- 42** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

- 43** The auditor has some reservations or concerns.
-

Unqualified

- 44** The auditor does not have any reservations.
-

Value for money conclusion

- 45** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of the Council of the Isles of Scilly

Opinion on the accounting statements

I have audited the Authority accounting statements, the firefighters’ pension fund accounting statements and related notes of the Council of the Isles of Scilly for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Resources and auditor

The Director of Finance and Resources’ responsibilities are for preparing the accounting statements, including the firefighters’ pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements and the firefighters’ pension fund accounting 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 Authority accounting statements and the firefighters’ pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice

on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the firefighters’ 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 governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, firefighters’ pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, firefighters’ pension fund accounting statements and related notes. 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, firefighters’ pension fund accounting statements and related notes, 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes 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 Authority accounting statements, firefighters’ pension fund accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters’ pension fund during the year ended 31 March 2010 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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 regularly to review the adequacy and effectiveness of these arrangements.

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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In doing so I identified the following:

- there were a number of weaknesses in financial controls and the Authority failed to obtain an independent valuation for a property it purchased;
- the Authority did not have a sufficiently well developed strategic approach to management of the its asset base;

Having regard to the criteria for other local government bodies specified by the Audit Commission and published in January 2009, and the supporting guidance, I am satisfied that, in all significant respects, the Council of the Isles of Scilly made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010, except for:

- managing its risks and maintaining internal control; and
- managing its assets effectively to help deliver its strategic priorities and service needs.

Certificate

I 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.

Patrick Jarvis
Officer of the Audit Commission
Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD
Xx September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities. This table only includes the most significant items. I have provided the Director of Finance and Resources with a full list of amendments.

Table 5 Amendments to the draft financial statements

I will update this on receipt of the final version of the statements

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fixed assets - Housing	Net Book Value understated		140	140	
Fixed assets - incinerator	Depreciation overstated		46	46	
Fixed assets - airport	Incorrect capitalisation of repairs	12			12
Government grants deferred	Revaluation of Wesleyan Chapel	8			8
Debtors	Overstatement	11			11
Creditors	Omission of accrual	9			9
Prior period adjustment		8			8

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 6 Unadjusted misstatements

Description of error	Accounts affected	Value of error £000
Errors in housing and council tax benefits	Collection Fund Housing Revenue Account	4

Appendix 4 – Draft letter of representation

xx September 2010

Mr P Jarvis
District Auditor
c/o Audit Commission
2nd Floor Suite
Stephenson House
Calenick Street
Truro TR1 2SF

Dear Mr Jarvis

Council of the Isles of Scilly - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council of the Isles of Scilly, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

Appendix 4 – Draft letter of representation

- errors in housing and council tax benefit will be resolved as part of the reporting to the Department of Work and Pensions on the results of the grant certification work
- INSERT EXPLANATIONS FOR OTHER UNADJUSTED MISSTATEMENTS

Related party transactions

I confirm the completeness of the information disclosed 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;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements 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 Council.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.
- The Council has also carried out appropriate arrangements for the valuing and impairment of fixed assets.

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

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or 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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Post balance sheet events

Since the date of approval of the financial statements by the 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.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements we have no other lines of credit arrangements.

Specific representations:

The Council confirms that:

- it has the rights and obligations over all assets disclosed in the financial statements; and
- fixed assets include buildings constructed on land that is not owned by the Council. The land is leased from the Duchy of Cornwall and the length of these leases varies, although some are on an annual rolling basis. For these rolling leases the Council has had assurances from the Duchy that there is no intention of not continuing to renew these leases;

- whilst it is unusual for a Council not to own the freehold to the land on which its assets are built, it is reasonable to continue to recognise these as assets and to depreciate them over their useful lives.

The Council confirms that:

- all relevant expenditure associated with the Route Partnership is included in the financial statements and there are no abortive costs incurred as a result of the delays in the project

I have reviewed the Council's contracts with the private sector and confirm that there are no public to private service concession arrangements.

I confirm disclosure of the fair value of PWLB loans.

Signed on behalf of the Council of the Isles of Scilly

Signed

Name

Position

Chief Executive

Director of Finance and Resources

I confirm that this letter has been discussed and agreed by the full Council on 23 September 2010.

Appendix 5 – Value for money criteria

KLOE	Met?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Use of information	Yes
Risk management and internal control	No
Managing resources	
Natural resources	Yes
Strategic asset management	No

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
9	Adjust the financial statements for the errors identified during the course of my audit.	3	Director of Finance and Resources			
10	Confirm the actions taken to address control weaknesses.	3	Director of Finance and Resources			
11	Include the additional disclosures in the financial statements identified during the course of my audit.	3	Director of Finance and Resources			
11	Obtain agreement from the relevant government departments that current and prior year grant funding remains available to support schemes in future years if these amounts are held and allocated to specific schemes.	3	Director of Finance and Resources			

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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