

# Annual Audit Letter

Council of the Isles of Scilly

Audit 2008/09

November 2009



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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.
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# Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

## Audit opinion and financial statements

- 1 I gave an unqualified opinion on the financial statements of the Council on 30 September 2009. We identified a number of errors in the financial statements that required amendment.

## Value for money

- 2 We reviewed the areas on which we were required to make an assessment. We identified the need for further improvement in two criteria; use of information and performance management, and strategic asset management. The Council has acknowledged that arrangements need to be developed further and the action required to address these. We gave an unqualified value for money conclusion with the exception of these two areas.

## Table 1 Audit fees

An additional audit fee was required for the audit of the financial statements

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	42,095	37,095	5,000
Value for money	22,653	22,653	0
<b>Total audit fees</b>	<b>64,748</b>	<b>59,748</b>	<b>5,000</b>
Additional work: Performance management	5,800	5,800	0
Inspection	5,972	5,972	0
<b>Total</b>	<b>76,520</b>	<b>71,520</b>	<b>5,000</b>

## Actions

- 3 In our view key actions for the Council include:
  - improving the capacity of the finance team so that it can achieve higher standards of financial reporting and implement new requirements such as International Financial Reporting Standards;

- improving arrangements for use of information and performance management; and
- improving arrangements for asset management.

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### Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

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

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## Significant issues arising from the audit

- 5 I gave an unqualified opinion on the financial statements of the Council on 30 September 2009.
  - 6 We identified a number of errors in the financial statements. The most important of these included:
    - the incinerator had not been revalued since 2001. Assets included in the balance sheet at current value should be formally revalued at intervals of not more than five years;
    - the airport runway had been depreciated over a useful economic life that differed from that assessed by the District Valuer;
    - in the fixed asset note to the accounts, the gross book value and accumulated depreciation of 'plant, vehicles and equipment' were overstated by £1,672,000 and £1,291,000 respectively, whilst the gross book value and accumulated depreciation of 'other land and buildings' were understated by corresponding amounts. This did not affect the overall value of assets disclosed in the financial statements; and
    - the in-year impairment to fixed assets of £2,089,000 was incorrectly disclosed in the fixed asset note to the accounts. As a result, both the gross book value and the accumulated depreciation of 'Council dwellings' were materially understated by £2,089,000 in the note to the accounts. There was no impact on the balance sheet.
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## Weaknesses in internal control

- 7 Our review of the material financial information systems identified a number of weaknesses where key controls were not operating effectively throughout the financial year. Weaknesses identified included:
  - key reconciliations were not always being completed monthly;
  - suspense accounts were not being regularly reviewed and cleared;
  - key IT policies in respect of disaster recovery and access control were not fully implemented; and
  - effective credit control of debtors balances had not operated effectively throughout the year.

- 8 The above issues were presented in more detail to the Council in September 2009 in our Annual Governance Report. The issues largely reflect sickness and other staff changes in the finance team. The Council has recognised the need to sustain and improve the capacity of its finance team and is currently seeking to recruit additional staff.

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### Preparation for the implementation of International Financial Reporting Standards (IFRS)

- 9 Councils will be required to implement the full requirements of IFRS from 2010/11. As part of this process, the Council will need to restate the 2009/10 comparative figures in the 2010/11 financial statements, and therefore will need plans to ensure these additional requirements are met. The Council has not yet developed an outline project plan to manage the transition to accounting and reporting under an IFRS-based Code of Practice on Local Authority Accounting.

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### Economic downturn and pressure on the public sector

- 10 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, particularly for those councils that invested in the Icelandic banks, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 11 This impacts on the audit and, as part of our responsibility, we have reflected on the wider environment, specific issues and risks and the Council's response. This is covered in both our work on the financial statements and the work to support our vfm conclusion looking at, for example, the loss in value of fixed assets and the way the Council has changed the focus of financial planning.
- 12 These wider impacts have not directly hit the Council to date but there will be continued financial pressures in future years. The ability to use general reserves to offset expenditure will be limited and the Council has revised its medium term financial plan and taken action in 2009/10 to reduce its use of general reserves and reinforce its earmarked reserves to ensure the Council is better-placed to support its operational and longer-term strategic objectives.

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### Members' expenses

- 13 As part of the Audit Commission's response to the wider national concerns over MPs' expenses, we reviewed the arrangements for the payment of expenses to both officers and members. Our work did not identify any issues. However, as reported in the annual governance report, a more explicit policy is required in respect of the remuneration and expenses arrangements where the Council is required to recruit from the mainland.

### Certification of claims and returns

- 14** Under the Audit Commission Act 1998, authorities may request the Commission to make arrangements for certifying their claims and returns.
- 15** During the 2008/09 audit, we have certified, or are in the process of certifying, five claims and returns. These are:
  - Housing and council tax benefit subsidy;
  - Teacher's pension return;
  - National non domestic rates (NNDR) return;
  - Tourism champion ERDF claim; and
  - Sure start/early years claim.
- 16** Only two (teacher's pension return and NNDR) were submitted to us by the required deadline and for two other claims (housing and council tax benefit and the tourism champion claim) the working papers originally submitted were not of an adequate standard to enable us to begin our audit testing.
- 17** A sixth return, the housing subsidy base data return, should have been submitted by the Council by 29 September 2009. This return has not yet been submitted.
- 18** To help you in this process we will develop and agree for 2009/10 a grants protocol to improve the process for certification and return of claims.

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# Value for money conclusion

**I assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## VFM Conclusion

- 19** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09 the Audit Commission will specify each year which of the use of resources KLOEs are the relevant criteria for the VFM conclusion at each type of audited body.
- 20** We identified weaknesses in your arrangements in two of the criteria; use of information and strategic asset management. These are areas where the Council acknowledges that arrangements need to be developed further and action is being taken to address these:
- for the use of information criterion, although assessed as 'not met' the main area for improvement is demonstrating that performance monitoring arrangements are embedded across the Council. Therefore, action is being taken to strengthen the Council's performance management arrangements in response to our performance management report and the Council is working to deliver these improvements in 2009/10;
  - for the strategic asset management criterion, the Council acknowledges that work is required in managing its assets effectively to help deliver its strategic priorities and service needs. This will be carried out as a specific project once the necessary resources are available. Clarification of a lead officer with overall responsibility for this work would help ensure effective development of this workstream.
- 21** I also considered the impact of the findings of our work on the effectiveness of key internal controls for financial systems mentioned earlier in this letter. This was to assess whether these findings would have an impact on the assessment on the criterion for risk management and internal control. I concluded that the assessment for this criterion was that it was 'met'.



## Value for money conclusion

**Table 2 Assessment against each of the relevant criteria**

We assessed two of the relevant criteria as 'not met'

<b>KLOE</b>	<b>Met</b>
<b>Managing Finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	N/A
Use of information	No
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	N/A
Strategic asset management	No
Workforce	N/A

Source: Audit Commission

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# Closing remarks

- 22** I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Resources. This letter will also be presented to Full Council and we will provide copies to all members.
- 23** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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## Table 3 Reports issued to the Council

The following reports have been issued to the Council as part of the 2008/09 audit

Report	Date issued
Audit plan	May 2008
Performance management	February 2009
Annual governance report	September 2009
Review of material information systems	November 2009

- 24** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Patrick Jarvis  
 District Auditor  
 November 2009

# Appendix 1 – Action Plan

No action plan is required although we will monitor progress made by the Council on the key actions identified in the 'key messages' summary of this letter.

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# 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.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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